

North Slope oil Producers: Decline will continue without meaningful tax reform

By Carl Portman

North Slope producers delivered a sobering message to over 1,100 business and community leaders at the Resource Development Council's 32nd Annual Conference on Alaska's Resources in Anchorage last month.

Claire Fitzpatrick, BP's Chief Financial Officer for Alaska, said her company expects up to an eight percent decline in North Slope oil production in 2012 and she warned that throughput in the Trans-Alaska Pipeline System (TAPS) could fall to about 550,000 barrels a day this winter.

Fitzpatrick said that a year ago BP committed to investing \$800 million in Alaska in 2011, and she expects the company will invest \$700 million in 2012. She displayed two slides, one representing planned activities on the North Slope over the next couple of years – activities like drilling, well workovers, pipeline maintenance and replacement, and upgrades. She said those activities will not begin to offset the eight percent decline in the fields BP operates, which currently account for two-thirds of

State Takes the Upside

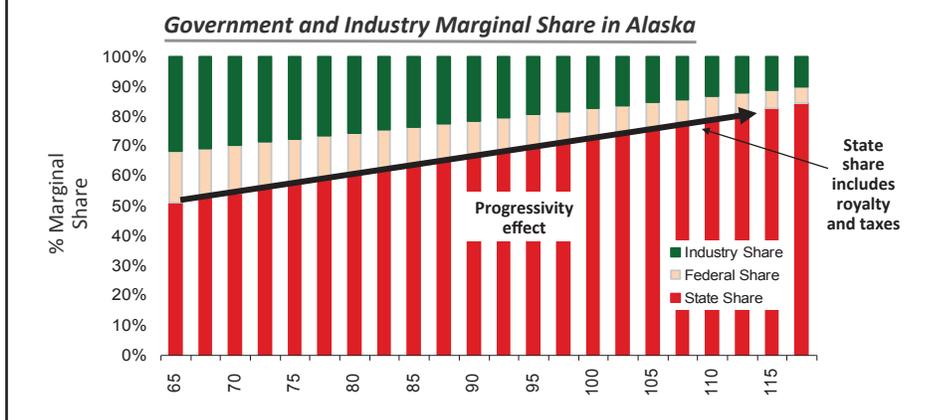


Chart courtesy of ConocoPhillips

North Slope production.

The other slide outlined possibilities – prospects that represent billions of dollars in new investment, billions of barrels of new oil, billions of dollars of new revenues for the state and the Permanent Fund, and thousands of long-term, well-paying jobs.

However, Fitzpatrick said the prospects outlined on the latter slide “do not make economic sense in the current business climate in Alaska – prospects that will remain only possibilities unless Alaskans and the oil industry work together to make changes that will make these possibilities commercially viable and competitive.”

Fitzpatrick acknowledged BP is making significant investments in infrastructure and pipeline upgrades, but capital spending on many activities that produce more oil is on hold or significantly limited. She warned that if the economics in Alaska do not improve, these activities will remain on hold.

“Our spending on these activities has not increased over the past few years, and production has dropped by more than

140,000 barrels of oil a day since ACES (Alaska's Clear and Equitable Share) was passed,” Fitzpatrick said.

So with high oil prices and activity booming in other oil-producing regions, why is Alaska standing still? Fitzpatrick answered that in Alaska's current high-tax environment, new projects can't compete for investment capital and current activities do not generate enough cash to pay for them. She explained that investment goes where it has the opportunity to make the best return, and Alaska is falling behind.

“Because of the way ACES works, nearly all price upside is consumed by higher taxes, and the share for investors becomes relatively small,” Fitzpatrick said.

In the summer of 2007 – before ACES passed – BP planned to invest about \$1.2 billion on the North Slope in both 2011 and 2012, Fitzpatrick said. She said the company is actually investing 40 percent less than what it had planned prior to ACES.

Current North Slope production has

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The Resource Review is the official periodic publication of the Resource Development Council (RDC), Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in a responsible manner and to create a broad-based, diversified economy.

Past issues of the Resource Review (1978-2011) are available at akrdc.org.



Moving the goal posts

Many of the biggest threats to the foundation of our economy, resource development, are the result of well-intentioned laws and public land management policies that have drifted far afield of their original intended purpose. In spite of our best advances in management practices to mitigate adverse impacts on the environment, the goal posts keep getting moved down field so we can never seem to satisfy new requirements. Raising the bar based on new innovation, methods and technology is one thing, but often it appears our laws and regulations morph beyond recognition and are being used for purposes for which they were never intended.

A stark example of moving goal posts and regulatory mission creep was articulated by Doug Vincent-Lang, special assistant to the State of Alaska Fish and Game Commissioner, Cora Campbell, at the Endangered Species Act forum at the start of this year's RDC annual conference. Vincent-Lang reflected on how far the ESA has drifted from the original congressional intent of protecting species in peril. This law is now being used to gain control over landscapes and seascapes, rather than protect species as Congress intended.

We are seeing ESA listings for species with healthy populations based on theoretical future threats that have yet to materialize (polar bear), and listings of population segments rather than species in the true sense of the word (Cook Inlet beluga whale). Perhaps we should be honest and rename the act the "Possibly Endangered at Some Time in the Future Population Segment Act." While that would make for a cumbersome acronym, it would more accurately describe a law that has listed the polar bear as threatened in spite of robust population numbers.

The National Marine Fisheries Service has proposed listing the Arctic ringed seal as threatened under the ESA, in spite of a population in the millions and rating of "least concern" by the International Union of Conservation of Nature (IUCN). According to the IUCN such designation means the species "does not qualify for Critically Endangered, Endangered, Vulnerable or Near Threatened. Widespread and abundant taxa are included in this category." The species is doing fine and there are several of these seals residing in our state for every man, woman, and child living here. Regardless, the listing will likely be used as a tool to control landscapes and seascapes and serve as an additional barrier to rational development of fisheries, mineral and oil and gas resources.

The National Petroleum Reserve-Alaska (NPR-A) shows what nine decades of metamorphosis can do to distort the intent of Congress. Established in 1923 under the leadership of President Harding as the Naval Petroleum Reserve Number 4, this 23 million acre prospective oil and gas province, about the size of Indiana, was established by Congress in recognition of high potential for oil and gas development to provide national energy security. Administration of the reserve was transferred to the BLM in 1974 and while oil and gas lease sales have occurred, the most prospective oil and gas acreage has been excluded. Production is still elusive in large part because operator ConocoPhillips has been delayed for years in obtaining permits for critical road and pipeline bridge access to the area. It appears that

issue may finally be resolved. Is this what Congress intended back in 1923 when reserving 23 million acres for oil and gas development? Did they imagine a regulatory system that would delay permitting for critical infrastructure necessary to meet the intended purpose of energy security?

The Clean Air Act is another well-intended piece of federal legislation that seems to have drifted from its original purpose. The EPA's web site recounts that in 1948 the industrial town of Donora, Pennsylvania experienced 20 fatalities and the illness of 6,000 out of its 14,000 population due to an industrial cloud that hung over the community. I'm 100 percent for cleaning our air and protecting public health from such threats. However, I fail to understand how such worthy legislation is also being used to frustrate oil and gas exploration of Alaska's outer continental shelf. Air permits for Shell's drill ship and associated ice breaking support vessels have been mired in permit appeals in part because a village 70 miles away suggest the activity may impact the air they breathe. Meanwhile Shell, having paid \$2.1 billion to the federal government for its offshore leases in 2008 has yet to spud its first exploration well. Is this what Congress intended, or were they focused on real public health issues like those in Pennsylvania back in 1948? Like the ESA, the Clean Air Act seems to have drifted far afield from its original intended purpose of protecting public health and is being used as a tool to frustrate our goal of increased domestic energy security.

According to the Government Accountability Office, between October 2010 and March of this year, 1,827 rulemaking proceedings were completed, 37 of which were classified as "significant" or "major," meaning their expected economic impact surpassed \$100 million per year. According to estimates by regulatory agencies, 15 of these new major regulations have combined annual costs of a whopping \$5.8 billion. The number of pages in the Federal Register, which chronicles all new and proposed rules and regulations, jumped 18 percent in 2010.

Alaska Congressman Don Young has proposed a regulatory do-over, repealing all regulations passed in the past two decades. While that seems unlikely and could have unintended consequences, one can appreciate the Congressman's frustration at the growth of burdens on business and the continual shift from congressional intent for many well-intended programs. Alaska could benefit from a programmatic re-evaluation in Washington to reset the goal posts so we can move Alaska forward with a robust resource-based economy as envisioned at Statehood, while still protecting the environment and public health.

Alaska Resources Conference

Presentations, videos, and raffle winners from RDC's 32nd Annual Alaska Resources Conference are now online at:
<http://www.akrdc.org/membership/events/conference/2011/>
Please save the date for next year's Alaska Resources Conference: November 14-15, 2012.

Industry: Steeper production decline likely

(Continued from page 1)

fallen to less than 600,000 barrels of oil per day – about 30 percent what it was at the peak in 1988. “That, combined with ongoing production decline, is a reality that can’t be disputed,” Fitzpatrick said.

The BP executive expressed concern with the state’s Department of Revenue (DOR) spring forecast that predicted a 13 percent decline in statewide production between 2011 and 2020. She emphasized that DOR was clear to point out that 52 percent of the forecast volumes for 2020 was from projects under development or evaluation, including those in currently producing fields. In other words, more than half the oil the state is banking on comes with a big “if.”

Moreover, a lot of the “under development” category has not yet received a final investment decision, Fitzpatrick noted. That means more than half of the production in just nine years – and therefore more than half of the state revenue stream – depends on investments yet to be made.



Fitzpatrick

Fitzpatrick also warned that her company is forecasting a much steeper decline in production over this period than it was last year at this time. After reviewing plans and activities in terms of what’s possible and what’s realistic in the current business climate, Fitzpatrick said BP is looking at a potential 25 percent decline by 2020 in the fields where it holds an interest.

“Put together, I see a 25 percent decline, with 50 percent of the state’s forecast production dependent on ‘if’ investment,” Fitzpatrick said. “So, without new projects, 25-50 percent of production will be gone in the next decade, and with it, 25-50 percent of the current work for contractors and suppliers in the state.”

She warned that TAPS throughput continues to tumble toward a critical threshold of 550,000 barrels a day, where a recent Alyeska study says the threat of freezing during winter increases significantly.

Industry Earnings Limited in Alaska

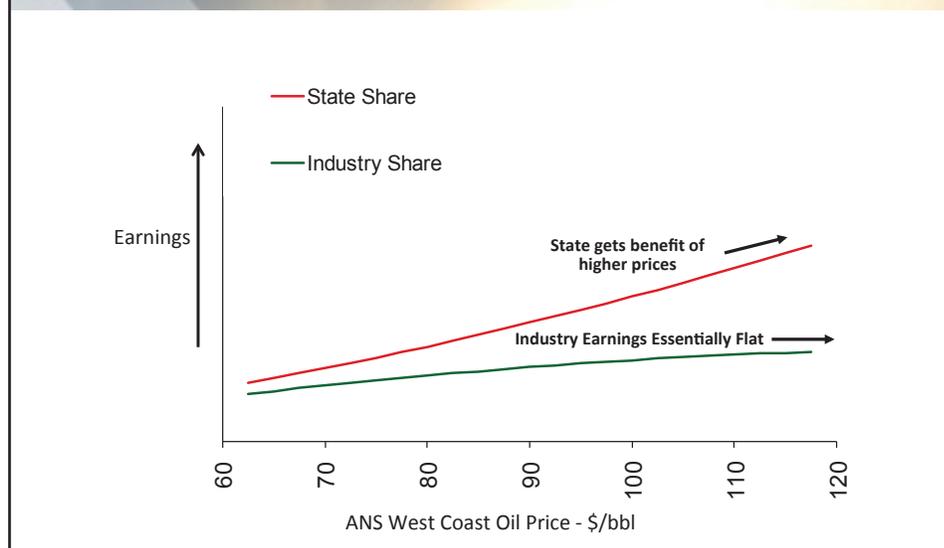


Chart courtesy of ConocoPhillips

At the rate throughput is falling, TAPS could reach that threshold this winter.

“BP and our partners are poised to invest billions of dollars in new projects that will result in billions of barrels of new oil from known sources that will sustain throughput in the pipe, and generate billions of dollars in long-term state revenue – when there’s a competitive business climate,” Fitzpatrick said. “These projects can be competitive if Alaska decides that it wants to compete.”

Fitzpatrick said BP will produce as much oil as economic conditions allow. “Make the economics less favorable, as ACES has done, and investment suffers. Improve the economics, as the governor’s House Bill 110 would do, and we’ll respond accordingly with investment in oil production.”

She urged conference attendees to be actively engaged with the state’s decision makers and urge them to adopt fiscal and regulatory policies that will promote more investment, more jobs, and more production. She noted that a recent poll has showed nearly 60 percent of Alaskans now believe oil taxes should be changed in order to compete for oil industry investment.

Alaska’s current oil production tax is the biggest impediment in getting more oil into TAPS and the biggest obstacle to oil company investment in the state, said Trond-Erik Johansen, president of ConocoPhillips Alaska, Inc.

Johansen concurred with Fitzpatrick in that while high oil prices make investment in

other oil jurisdictions attractive, his company is not planning additional investments in Alaska in 2012 because of the state’s tax climate. He expects the company’s budget to be flat, about the same as the previous two years, while it has increased more than 100 percent in the Lower 48.

As a result, oil production in the Lower 48 has increased sharply and Alaska, which use to be the top producer in the U.S., has fallen to number three and could soon fall to fifth or sixth place.

Johansen said oil production is declining in Alaska because the “easy oil” has been drilled and ACES takes away the incentive for companies to invest at high prices.



Johansen

Johansen explained that drilling costs have spiked while at the same time North Slope wells are producing less. “My point is we need to drill more wells. We need to have more people working on more wells. That also means it needs to make commercial sense to us,” Johansen said.

With the progressivity factor in ACES, the higher the price of oil, the less incentive there is to drill for challenged oil, Johansen said, compared to other places where taxes and royalties are flat, allowing a company to capture more of the upside at high prices.

Johansen noted that in North Dakota taxes and royalties are 55 percent, compared to 85 percent in Alaska. He said other places



Images courtesy Doug Smith, LRS Corporation. Photos by Judy Patrick

in the world also have higher taxes, but when the price of oil climbs, taxes and earnings rise together.

“We take the risk; we want a fair share of that reward for taking that risk and that’s not happening” in Alaska, Johansen said.

Johansen said the question is when will Alaska benefit.

With lower taxes, in the short-term, the state would see less revenue, Johansen acknowledged. But in the long term, with improvements in the fiscal regime, “you will see more drilling, you will see more projects...that is just the way capitalism works,” he said. The question is whether the discussion will be “around short-term gains or are we going to talk about the long-term future,” he said.

Johansen noted that last spring his company committed to increase its investment in Alaska should the legislature enact substantial fiscal reforms. With fiscal reform, Johansen said ConocoPhillips will increase drilling activity, pursue more satellite developments, and pursue major projects in existing fields.

He said Alaskans have a choice of two possible futures – no fiscal reform, which will lead to an acceleration in production decline and jobs and investments going to the Lower 48 and abroad, or a future with fiscal reforms, which he said would bring increased production drilling and capital, an arrest to the production decline, more jobs and investment in Alaska, and a strong long-term state economy.

Doug Smith, president of LRS Corporation and David Cruz, CEO of Cruz Companies, shared their concerns during a panel discussion called, “North Dakota or Bust.” Smith said he has not yet joined a number of Alaska contractors who are now operating in North Dakota, but feels he is now behind the eight ball. “If I stay in Alaska and continue to invest, you can see some of our challenges,” Smith said, while displaying several slides (pictured above) comparing the business climate and industry activity in Alaska to North Dakota. He noted there are approximately 200 rigs in North Dakota and only 17 in Alaska.



Smith

“The sign that should scare us the most is the increasing state budget,” Smith warned. “From 2006 to 2010, our budget went up 40 percent – from \$6 billion to \$10 billion (including federal matching funds). Over the same exact period of time, our production went down by 23 percent. I don’t know how you guys run your business, but if I ran mine that way, I know where I’m going to be in 28 years, that’s broke and out of a job,” Smith said.

Dave Cruz, CEO of Cruz Companies, said his diversified operations on the North Slope have seen a tremendous slow down over the past two years, forcing him and other service companies to focus on North Dakota, where industry investment is booming. He employed 200 people on the North Slope in 2008, but only 12 last winter.

“We have lots of positions open in North Dakota and none in Alaska,” Cruz said. “When I look out my office window, I see a steady stream of Alaskans coming in wanting to leave the state and



Cruz

go to work in North Dakota. I look at these young folks and they are leaving; they are not seeing a future in Alaska. They have sold their homes and are moving their families. What’s alarming is they don’t have to leave – we are paying to fly these guys back and forth. We’re losing senior workers and they are not coming back.”

Cruz revealed that over the last five years, not a single exploration well his company has worked on in Alaska has come into production. Yet in North Dakota, he said there is a 90 percent chance that a well will produce.

He noted that in December 2010, 130 rigs were working in North Dakota, rising to 199 today. In Western Canada the rig count is 479.

“They are on the rebound from changing their tax structure that crippled their industry three years ago,” Cruz said of Western Canada. “They’re drilling 12,600 wells.”

Cruz noted in 1974 the largest private sector employer in Alaska was the Southeast Alaska timber industry. “Multiple sawmills, two thriving pulp mills, and thousands of well-paying jobs were legislated out of business,” Cruz said. “The market did not shut them down, legislation shut them down. Regardless whether it was federal or state, it was politicians that did it. Is this the history we’re going to write for the oil industry in Alaska? We might see history repeat itself.”

North Dakota is drawing companies out of Alaska because it extended a friendly hand to the oil industry and businesses that support it, Cruz said. The state enacted lower royalty rates and tax incentives to encourage investment, he said.

“In Alaska, the progressivity measure in the state’s oil production tax system is strangling our industry and funneling opportunities to North Dakota,” Cruz added. “We have major problems. We’re not competitive in Alaska. We do not have a favorable business environment.”

Cruz credited Governor Parnell for recognizing the threat high oil taxes pose to the state’s economy and he praised the governor for his efforts in trying to roll them back, but warned, “a click of Alaska state senators are playing Russian Roulette with Alaska’s future.”

The Alaska contractor also took a shot at the federal government. “Federal regulators with the Fish and Wildlife Service, the EPA, the Corps of Engineers, and the BLM – armed with endless mazes of bureaucracy and paperwork – are eroding the incentive for companies to explore and develop in Alaska,” Cruz said to a hearty applause.



Guest Opinion - Mayor Shirley Marquardt

Ocean policy that restricts autonomy of regional fishery management councils is troubling

As Mayor of a community that relies upon healthy fisheries to sustain our economy and City services, the prospect of a centralized ocean policy that restricts the autonomy of our regional Fishery Management Councils is troubling.

For over a year the Obama administration has been in the process of developing a National Ocean Policy process which appears to reduce the autonomy and authority of our Regional Fishery Management Councils. This significant shift from a regional council with considerable public input to a massive federal panel that largely excludes the public is being sold as a necessary change to enhance the conservation of our marine resources while coordinating activities that take place at sea. Yet after spending significant time and resources, officials are still unable to address basic concerns of our commercial fisheries and fishing dependent communities.

Unalaska/Dutch Harbor has been the most prolific fishing port in the nation for 22 years running. The large scale of our fishing activity and the community's financial stability speaks volumes about the current regional fishery management process and its success, and indicates the current system is working.

In 1976 Washington Senator Warren Magnuson and Alaska Senator Ted Stevens extended the US ocean boundary from 3 miles to 200 miles, establishing the regional fisheries management council system in the process. Today, the Magnuson-Stevens Act remains a successful model of fisheries policy; its provisions allowing the North Pacific Fishery Management Council to develop and establish policies that have enabled Alaskan coastal communities like mine to benefit greatly over the past 10 years.

Since its establishment, the NPFMC has been a complex mix of local stakeholders and regional participants, each Council member bringing their particular area of expertise and interest to the table for a thorough discussion of policy before a knowledgeable and passionate public. The most recent NOAA Fisheries Report to Congress reflects the NPFMC's successful management of the fisheries under their watch. We have the best record in the Nation of avoiding overfishing, and our system has become a model for successful fisheries management around the world. Hard lessons have been learned along the way, but they have been learned, and our fisheries-dependent communities are better off because of it.

The benefits of a regional management system to coastal communities throughout the Aleutians are undeniable. The fisheries management system includes Alaska community representatives, fishermen, conservationists, enforcement, businessmen, CDQ partners, and representatives from Alaska, Washington, Oregon and NMFS. This regional approach to fisheries management has proven quite successful. Unfortunately, the National Ocean Policy appears

“That Unalaska is home to the Number One fishing port in the nation for 22 years is a testament to the success of our current regional fishery management process. To suggest that the current process should be replaced by a top-heavy bureaucracy with limited public involvement is to ignore these successes and puts communities like mine at risk.”

aimed at restricting this system in favor of one where decisions are made by outside bureaucrats unfamiliar with Alaskan communities, commercial fishing, and the unique challenges faced by municipal officials who depend on stable revenues for stable communities.

Revenues directly generated by fisheries are vital to our ability to fund City services and projects. They are used to fund School budgets, Senior Citizen Lunch Programs, road repairs and non-profits that provide for the health and safety of our most vulnerable citizens. They provide funding for after school programs, Emergency Towing Systems and public safety. The public involvement that is a significant element of the NPFMC process allows for small communities like mine to weigh in on matters that affect our very survival, and the regional Council listens and understands legitimate concerns while crafting responsible policy.

Without prudent and reasonable fishery policies designed by the NPFMC that rely heavily on stakeholder involvement, I strongly question whether we would have a sustainable economy to support our community of over 4,300 residents and our many small local businesses.

That Unalaska is home to the Number One fishing port in the nation for 22 years is a testament to the success of our current regional fishery management process. To suggest that the current process should be replaced by a top-heavy bureaucracy with limited public involvement is to ignore these successes and puts communities like mine at risk. Let us maintain our current, successful fishery management system. Indeed, our survival may depend on it.

Shirley Marquardt is mayor of Unalaska. She has wide experience in the fishing industry and is the incoming 2012 president of the Alaska Municipal League.



Unalaska/Dutch Harbor is the most prolific fishing port in the U.S., ranking number one for the past 20 years.

Happy Birthday, ANCSA

ANCSA
turns **40**

Photos by
Judy Patrick

By Marleanna Hall

On December 18, 1971 the Alaska Native Claims Settlement Act (ANCSA) was signed in to law by the U.S. Congress. The Act would divide Alaska Natives into 12 geographic regions, which would later be formed into Alaska Native Corporations (ANCs). A 13th ANC was formed for Alaska Natives living outside the state.

ANCSA granted 44 million acres of land to the 12 regional corporations, in addition to \$962.5 million dollars, shared by all 13 corporations. Within the Native corporation regions, smaller Village Corporations were later formed, and now number over 200.

Passage of ANCSA was motivated by the settlement of Native land claim issues, which had slowed the construction of the Trans-Alaska Pipeline System. The title to the 44 million acres and access to development of the resources beneath the lands was part of an implicit promise Congress made to Alaska Natives in exchange for giving up aboriginal claims.

Land conveyances – fully realized?

With ANCSA, 44 million acres of land was to be conveyed to ANCs by the federal government. To date, approximately one-third of those land selection conveyances have not yet been finalized.

ANCs have selected land for cultural and historic values, as well as areas rich in natural resources. While some of the conveyances are delayed due to Bureau of Land Management staffing issues, some are also delayed due to other complex issues. These problems have slowed the goals of ANCSA.

ANCSA provides economic opportunities

The Congressional Act was intended to benefit Alaska Natives by providing an economic tool and resources (land). Corporations could partner with Alaska's resource industries to develop natural resources. These projects help ANCs by offsetting borough and municipal taxes, providing jobs, distributing revenues, and much more.

A provision in ANCSA, Section 7(i), recognizes that lands in each region have differing values and resources. Section 7(i)

requires that 70 percent of all revenues from subsurface resource development and timber harvesting received by an ANC be redistributed to the other 11 ANCs.

In addition, a provision for regional corporations to distribute 7(i) revenues to village corporations was implemented, titled 7(j). This provision requires redistribution of 50 percent of 7(i) revenues. The number of village corporations in each region varies, but each one benefits from statewide resource based revenues to regional corporations.

The 7(i) and 7(j) sections of ANCSA were written by Native leaders to benefit all ANCs. When the Alaska Native people came together, they were able to craft a way to share resource revenues between the regions, down to the village corporations.

Margie Brown, President and CEO of Cook Inlet Region, Inc., spoke to the RDC Alaska Resources Conference in November. "Native leaders, working together, decided what those rules should be," Brown explained referring to the 7(i) and 7(j) rules.

Brown described these provisions for sharing as "the most Native part" of ANCSA, where all Alaska Natives can benefit. Not only does the provision benefit Native corporations through royalty payments, but also through business partnerships and shareholder training and employment.

"ANCSA is not perfect . . . I no longer think of it as the end all, be all, for all that Alaska Native people need. It's not that, but its such a powerful tool that we need to forward it in the Native community and embrace it and also recognize where there are other needs," said Brown. ANCSA is a step in a bigger picture, where Alaska Natives will have more opportunities, she noted.

Alaska Native Corporations continue to grow in diversity, with stakes in business from civil engineering to tourism and hospitality, to oil and gas development and healthcare services. Many corporations have operations outside Alaska, and even outside the U.S.

"The definitive history of the Alaska Native Claims Settlement Act has yet to be written," said Byron Mallott, who also spoke at the RDC Conference.



Mallott

ANCs are an economic force in Alaska

In 2010, 22 of the Top 49ers, recognized by Alaska Business Monthly as leading corporations of the state, were Alaska Native corporations. A large portion of these business revenues is a result of government contracts with 8(a) provisions. Congress established the 8(a) program with the intent to end poverty that gripped many Alaska Native communities.

However, the original reasons for its creation still exist in many villages in Alaska. It takes time to realize the benefits of the Alaska Native 8(a) program.

In efforts to reduce high unemployment and dependence on welfare, ANCs strive to provide opportunities to shareholders by offering job training, advancement training, scholarships, and more. In turn, ANCs and industry partners work to advance to other causes, such as responsibly developing the natural resources on Native lands in Alaska.

According to the Top 49ers report, Native corporation revenues were over \$8 billion dollars in 2010.

"Economic statistics alone do not capture the full essence of how ANCSA has dramatically improved the lives of Alaska Native people," said Will Anderson in the 2010 ANCSA Regional Association report.

"RDC is proud that all 12 land-owning regional corporations are members of RDC," said Executive Director Rick Rogers. "With 44 million acres of lands and resources, these sophisticated organizations are an integral part of our resource community in Alaska."

For more information about Alaska Native Corporations, including brief descriptions, please visit: <http://www.akrdc.org/issues/nativecorporations>



Brown

Mining works for Alaska

By Deantha Crockett

Mining Works for Alaska.

The motto of the Council of Alaska Producers (CAP) describes the contributions made by the mining industry to Alaska's economy and its people, said Mike Satre, Executive Director of CAP and RDC Board member. Satre delivered the mining portion of RDC's Annual Conference opening segment titled "Alaska Industry 2011 Year in Review and 2012 Outlook."

Satre provided an overview of the mining industry in Alaska and its economic impact for the year 2010. He indicated Alaska has six large producing mines, as well as 24 projects that each spend over \$1 million per year on exploration. Mining provides 3,500 direct jobs statewide, which dispense an average annual salary of \$95,000.

Satre outlined the producing mines in Alaska: Red Dog, the world's second largest zinc mine near Kotzebue, which is operated under a partnership between NANA Regional Corporation and Teck, the Fort Knox gold mine near Fairbanks, the Pogo gold mine near Delta Junction, Nixon Fork gold mine near McGrath, Usibelli Coal Mine in Healy, Kensington gold mine near Juneau, and Greens Creek, a silver mine on Admiralty Island.

Large projects currently being explored in Alaska include the Livengood gold deposit outside of Fairbanks, the Donlin gold deposit in the Kuskokwim region, Chuitna coal project in western Cook Inlet, Wishbone Hill coal mine in the Mat-Su Valley, and the Pebble copper and gold deposit in Southwest Alaska, and Niblack polymetallic prospect in Southeast Alaska, Satre said.

Satre referred to some milestones that occurred in 2011, including Fort Knox pouring its five millionth ounce of gold, the first full year of Kensington operations after almost 20 years of delays, the Red Dog mine expansion into the Aqqaluk deposit that will prolong mine life until at least 2031, and the re-opening of the Nixon Fork mine near McGrath, due to the high price of gold. Additional milestones Satre mentioned were a partnership between NANA and NovaGold to explore the Ambler Mining District, the first assessment of Donlin, estimated to cost \$7 billion to bring into production, and the State



Mike Satre speaks at the RDC Conference.

Photos by Judy Patrick

of Alaska's commitment to inventory Alaska's critical minerals opportunities.

Satre noted mining in Alaska does not come without challenges. He stated Alaska is high-risk, with over \$2 billion being spent on exploration only to have seven producing mines. Exploration and development is expensive, and the state has an immense lack of infrastructure like roads and power supply. Perhaps the biggest challenge, said Satre, is the public perception that mining cannot exist with other resource industries in the state, which is simply untrue. Satre stated the critical need to develop all resources in tandem in Alaska, and that our resources are not mutually exclusive. He urged the audience to never consider one resource over the other, but rather how to develop both sustainably for the future.

Opportunities, however, do exist in Alaska and attract investors worldwide, Satre said. He said Alaska has vast mineral potential, with much of the state underexplored and the possibility of a huge prospect yet to be discovered. He described Alaska's permitting process as being science-based, predictable, transparent, and rigorous. "On the state side, what the state can permit, we know what we're getting into and have a good working relationship with state regulators," Satre said.

Satre explained that Alaskans are very supportive of the mining industry, with over 80% of citizens who recognize the industry's contributions to the state economy.

"Existing mines in Alaska are a model for responsible resource development," Satre said. "With high commodity prices and an Administration and groups like RDC that support us, we want the opportunity to work in Alaska and want to make sure our industry will work for Alaska in the future."

Seafood industry in Alaska remains healthy and stable

By Marleanna Hall

Dave Benton, Principal of Benton & Associates, provided an update at the November RDC Alaska Resources Conference of the seafood industry in Alaska. The industry continues to provide economic opportunities where they may otherwise not be available, Benton said. He noted the seafood industry is Alaska's largest private sector employer, with nearly 81,000 direct and indirect jobs.

While not a growing industry, the seafood sector is a stable industry, Benton said. He highlighted Alaska's contribution to global fisheries, noting Alaska provides 35 percent of the world's wild salmon, and nearly one-fifth the groundfish.

Benton noted some of the concerns facing the industry include mining, oil and gas development and drilling, the Endangered Species



Benton

Act, and access to resources. He further explained that each industry across Alaska faces similar challenges in regard to regulatory, cultural, and political issues, but that RDC is a place where differences in views can be discussed honestly and in a way to find solutions.

Benton's presentation included the Seafood Industry in Alaska's Economy, a publication prepared for the Marine Conservation Alliance. The publication highlights the industry's importance, on a global, national, and state level. Additionally, the publication points out the positive impacts and economic values the industry provides to many coastal villages and rural communities.

The seafood industry provides jobs and pays taxes, as well as improves infrastructure in many coastal villages.

To view the Fishing Industry in Alaska's Economy, visit: <http://www.akrdc.org/issues/fisheries/2011seafoodindustryreport.pdf>

Tourism industry needs stable tax climate

By Deantha Crockett

Alaska's tourism industry needs what every other industry needs: a stable tax environment, regulations based on sound science, and reinvestment of profits to enhance the industry for years to come.

These sentiments relayed by Scott Habberstad, Director of Sales and Community Marketing – Alaska for Alaska Airlines and RDC Board member, remain true for each industry featured in the opening segment of RDC's 32nd Annual Conference titled "Alaska Industry 2011 Year in Review and 2012 Outlook."

In addition to serving on the RDC Board, Habberstad is also a founding member of the Alaska Alliance for Cruise Travel (AlaskaACT), Marketing Chair for the Alaska Travel Industry Association, and Vice Chair of the Anchorage Convention & Visitors Bureau.

Habberstad outlined two distinct methods of tourism travel to Alaska: visitors who come by cruise ship, and visitors who come by air, highway, or ferry, called independent travelers. He explained that independent traveler numbers, measured by bed tax receipts received in communities around the state, decreased in Southeast and Interior Alaska but increased exponentially in Southcentral Alaska in 2011. He added that domestic airline service provided by Alaska Airlines, Delta, United, US Airways, and Jet Blue decreased by 4% overall, as a result of reduced flights on Delta and United. International airline capacity was up with flights arriving on Condor, Edelweiss, Japan and Korean Airlines.

Habberstad noted Alaska had enjoyed 12 years of climbing cruise passenger numbers, until the 2006 ballot initiative passed, which placed a head tax on visitors as well as instituted a corporate income tax increase, a gambling tax, and unattainable discharge requirements that even municipalities and state ferry systems cannot meet. He indicated the punitive affects of the measure, combined with the high expense of operating in Alaska and a weakening economy, caused cruise lines to redeploy their ships to more profitable regions of the world. This was a devastating blow to the Alaska tourism industry as well as to the economy, Habberstad said. He stated that 2010 brought the lowest number of cruise passengers in years, and

Scott Habberstad from Alaska Airlines speaks at the RDC conference. (Photos by Judy Patrick)



Lower taxes lead to increased investment in Alaska

The Norwegian Sun will sail between Vancouver and Whittier in 2013, bringing approximately 40,000 additional visitors and \$40 million in spending within Alaska.

Norwegian Cruise Line's recent announcement follows one earlier this year by Holland America Line to increase its capacity for 2012 and another by Princess Cruises to add an additional cross-gulf ship to Alaska in 2012.

Citing a decrease in the cruise ship head tax passed by the Legislature in 2010, Governor Parnell said, "This is more evidence that lowering taxes on an industry leads to increased investment that Alaskans will reap into the future."

many small businesses that depend on those passengers had to close their doors.

The good news, Habberstad said, is that in 2010 Governor Parnell began working with industry leaders to improve the bleak cruise passenger situation. He described a compromise to reduce the head tax was created and approved by the Legislature, and as a result cruise lines have routed ships back to Alaska (see brief above).

Habberstad presented to the audience the worth of an average Alaska visitor: \$935. He explained that this number does not include travel, for instance the cost of their plane ticket or cruise itinerary, but includes money spent on the ground in restaurants, at gift shops, on tours, etc. He mentioned that \$935 per person adds up to \$1.5 billion spent by Alaska visitors this year. He pointed out that the tourism industry employs 36,000 people statewide and pays \$1.1 billion in wages annually.

Habberstad concluded by reminding the audience that increased tourism is good for all Alaskans, and industry leaders want to ensure a stable tax policy, equitable regulations, and reinvestment of profits to keep the industry healthy for years to come.

Southeast Alaska forest industry continues to struggle

By Carl Portman

Owen Graham, Executive Director of the Alaska Forest Association, presented an overview of the state's struggling forest industry at RDC's Alaska Resources Conference last month. Graham pinned the industry's depressed condition on federal policy makers who have severely restricted access to timber. "The markets are not a problem for our industry, it is entirely a timber supply issue," Graham said.

Graham pointed out that the timber industry in the Fairbanks area is stable as the state is providing timber to keep local mills in operation. He noted the state is looking at developing additional timber lands in Southcentral.

However, the industry's status in Southeast Alaska is dire with only one medium sawmill remaining, and it may be forced to close next summer due to a dwindling timber supply.



Graham

Graham noted the Forest Service under the Obama administration has basically abandoned the 2008 Tongass land management plan, which was to provide approximately 267 million board feet of timber annually to local mills. Graham said that last year the Forest Service supplied only 36 million board feet of timber, choosing to "move in a different direction."

Graham reported that Sealaska Corporation may be forced to wind down timber operations in the region if legislation providing for its remaining land entitlements does not pass Congress. Graham explained the corporation's remaining selections amount to 1.5 percent of the commercial timber land of the Tongass. Given the Forest Service is managing only one percent of the Tongass for timber sales, "Sealaska being able to select from different areas of the forest will have no impact on the agency's timber sale program," Graham said.



Alaskans trumped by ACES: royalties fall as oil production declines

Many Alaskans know that oil production accounts for roughly 90 percent of state revenues. It is great that Alaskans do not have to pay a state income or statewide sales tax due to our oil wealth.

Representative Mike Hawker wrote in the last Resource Review, “We all know oil is the lifeblood of Alaska’s economy and funds nearly every state service. We also know our North Slope oil production has declined precipitously to a level that threatens the viability of the Trans Alaska Pipeline and with that the personal security of every single Alaskan. I think we all agree; stopping that decline is the most important challenge facing state policy makers today.”

I strongly agree with Mr. Hawker.

Most Alaskans are not aware of the complexities of their own tax returns, no less the oil companies. However, there are three primary state and local taxes that oil producers pay, as well as royalty payments, which are as follows for FY2010.

	Amount in Billions
1. Royalties	\$2,184.2*
2. Production Taxes	2,871.0
3. Property Taxes	118.8
4. State Corporate Income Taxes	447.9

*Includes payments to the Alaska Permanent Fund

The federal government also takes its share.

The ACES tax which came into place in 2007 under then Governor Palin dramatically increased the production tax component. It did not affect the other tax elements. Production taxes can change over time through the legislative process.

Royalties

The State of Alaska leases land on a competitive basis to companies for the purpose of oil and gas exploration, development, and production. As the land owner, the state earns revenues, or its share, in three ways.

1. Bonus bids at the time of the lease sale
2. Annual rent
3. Royalties during the production of the field

“Alaskans depend on good-paying jobs and the state government is reliant on oil production to pay its bills. If the accelerating decline in oil production is not arrested, TAPS could face premature shut down. If or when that happens, the tax burden to keep Alaska running will fall on you and me.”

Royalties are not paid unless there is production. The state generally retains a royalty interest of at least 12.5 percent. Most current production is from leases that carry this royalty rate.

Royalty percentages are set for a long period of time. Prudhoe Bay, the largest oil field in North America, has been paying the state billions of dollars in royalties at the 12.5 percent rate since 1977.

The state forecasts oil production and oil price for future periods to assist in budget preparation. In 2007, prior to ACES having been passed, the Department of Revenue forecasted Alaska oil production would exceed 800,000 barrels per day in 2011. Our actual results for calendar year 2011 through October were approximately 574,000 barrels per day. Just think, our royalties would be around 38 percent higher if production had been 800,000-plus per day.

Alaskans have been trumped by ACES. Production has declined at a faster rate every year since this confiscatory tax went into effect. This year is the worse yet with a decline of 70,000 barrels per day. You do not have to be an accountant to figure out that the needle is moving toward empty at an accelerating pace.

Governor Parnell has a lofty goal of increasing production to one million barrels a day in the next ten years. It can happen with multi-billion dollar investments by oil companies. It will require a significant increase in drilling, new and modified infrastructure, and a cooperative attitude by multiple parties.

All Alaskans, or almost all, enjoy receiving their Permanent Fund checks every year. The Alaska Constitution requires that 25 percent of all royalties be deposited into the Alaska Permanent Fund. Our future individual check size will be greatly enhanced with more oil production. Remember, no production equals no royalty.

Alaskans depend on good-paying jobs and the state government is reliant on oil production to pay its bills. If the accelerating decline in oil production is not arrested, TAPS could face premature shut down. If or when that happens, the tax burden to keep Alaska running will fall on you and me.

Let’s get Alaska moving again. We want to maximize royalties for the benefit of all Alaskans. There is a need to drill to pay the bill. We have no dough without oil flow. We have a lot of oil left on the North Slope. Let’s safely develop it to create long-term royalties and employment opportunities for Alaskans.

Increased Production
 =
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 =
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 +
TAPS Staying Open

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