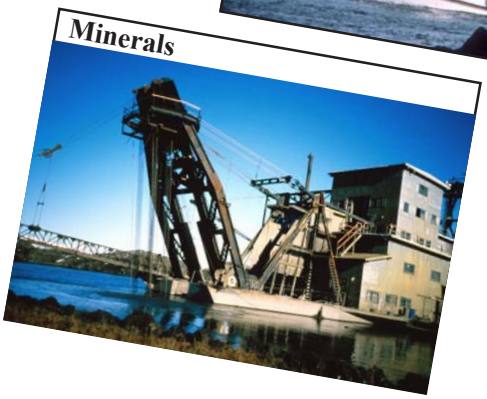
Alaska Economic Performance Report 2003



Frank H. Murkowski
Governor
State of Alaska

Department of Community and Economic Development

Edgar Blatchford
Commissioner
Department of Community
and Economic Development

Alaska Economic Performance Report 2003

STATE OF ALASKA

Department of Community
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The 2003 report covers a range of economic indicators, industries and government actions. This means that the most current information reported for a particular item may be for 2001, 2002 or 2003. For example, the most recent published information for Gross State Product (GSP) is for 2001. Where possible, the information like GSP is supplemented by anecdotal information or forecasts to reflect more recent events. In all cases, the current available information is contrasted against information from prior years to give a sense of trend or a change in direction. Simply stated, there are normal and unplanned delays in the availability of the information and each information source follows its own schedule. The goal here is to provide a comprehensive set of performance indicators.

April 2004

The Office of
Governor Frank Murkowski

Dear Alaskan,

Since the beginning of my administration I have been committed to putting Alaska's fiscal future on a sound and sustainable ground. I asked my administration to focus their efforts on reducing state spending by reducing the amount drawn from the general fund, and they have done just that. I also asked that we focus our priorities on developing our state's abundant natural resources and we are moving in the right direction.

In 2003, we saw a seven percent improvement in Alaska exports, totaling $2.7 billion. These commodities include Alaska seafood products, minerals, oil and gas, wood products, and fertilizer. Trade is especially important to Alaskans because it creates jobs and hope for thousands of local people throughout the state. Japan remains the state's largest customer, importing $1.03 billion of Alaska's products. Korea is Alaska's second largest export partner, followed by Canada, China, Germany, Belgium, and Mexico.

It is my administration's goal to improve our infrastructure, so that we can improve access to our vast natural resources and prepare us for future opportunities in world markets.

I am working tirelessly to develop Alaska's resources to provide for a healthy future. My top priority is development of a natural gas pipeline that would come online early next decade. In the meantime, I am working with the Legislature to find ways to resolve our chronic fiscal gap. Those two projects are my top priorities, because they will lead Alaska toward the bright and prosperous future we all desire—for ourselves, our children, and our grandchildren.

Sincerely yours,

Frank H. Murkowski
Governor

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Overview of the Alaska State Economy

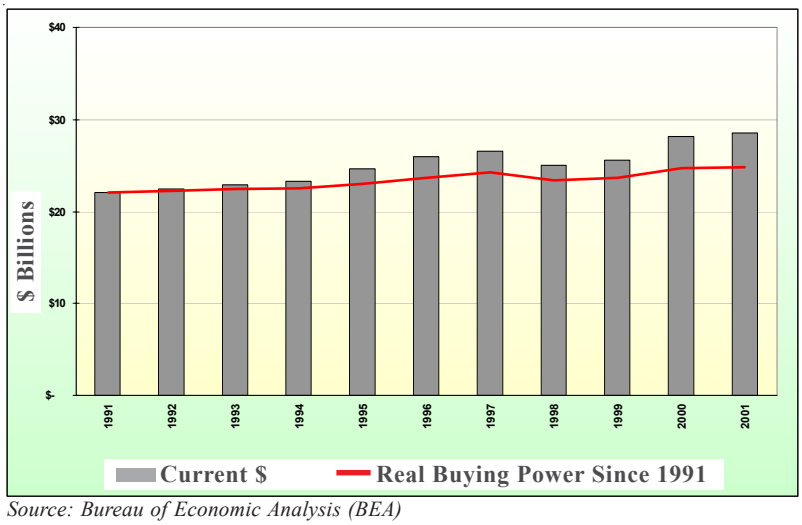
Summary

In Alaska, the oil and gas sector still dominates the Gross State Product, accounting for 45% of the business that creates new wealth. The Alaska economy is essentially stable despite decreases in oil and gas extraction, lower salmon prices, and flat trends in non-resident tourism and mining. Smaller, but growing, sectors of the economic base include agriculture and the federal government. Federal spending in Alaska is at a record high — over $7.0 billion in 2002. The greatest economic growth continues to be in the private support sector, which includes services, retail trade, transportation, communications, utilities and construction. Growth in the private support sector is primarily due to increases in capital improvement project spending, the annual Permanent Fund dividend to Alaska residents, Native Corporation business activity, and government spending.

Local, State and federal government spending fuel the private support sector. About a quarter of total State spending goes directly to Alaska businesses and another quarter goes directly to households. About 18% of State spending is for wages and salaries. In addition, 63% of all federal spending in Alaska goes directly to Alaska businesses and households. In terms of employment, State government has been stable or slightly increasing, while local government continues an increasing trend.

In 2001, Gross State Product (GSP) was $28.6 billion, slightly up from $28.5 billion in 2000. Since 1991, GSP has generally increased. However, as indicated in the chart on the right, when the annual GSP is adjusted for inflation the overall increase is minimal. For comparison, in 2001, real GSP declined in 20 states and growth decelerated in 26 additional states.

Alaska Gross State Product



Source: Bureau of Economic Analysis (BEA)

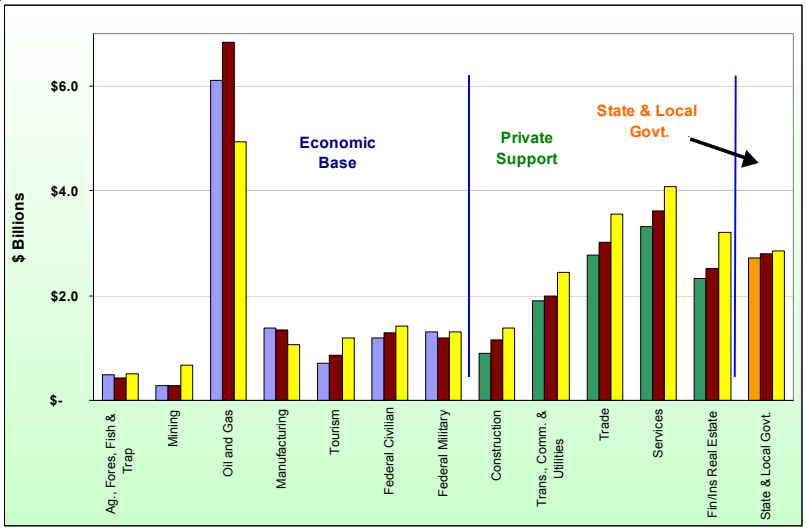
Employment and population continued to expand in 2003, marking 16 consecutive years of job growth. In 2003, the annual average wage and salary employment was 299,600 jobs — 15,700 more jobs than in 2000. In addition, an estimated 27,600 jobs were held by Alaska residents in commercial fishing, offshore seafood processing and non-resident tourism. The Alaska Department of Labor and Workforce Development estimated Alaska's July 1, 2003 population at 648,818, an increase of about 21,886 residents since 2000.

Gross State Product

Gross State Product (GSP) is one of the best overall measures of economic performance. GSP is the value added to all the goods and services produced in Alaska. Value is added as products move from one processing stage to the next. For example, trees are harvested, logs are made into lumber, and the lumber is used to build a house. At each stage value is added.

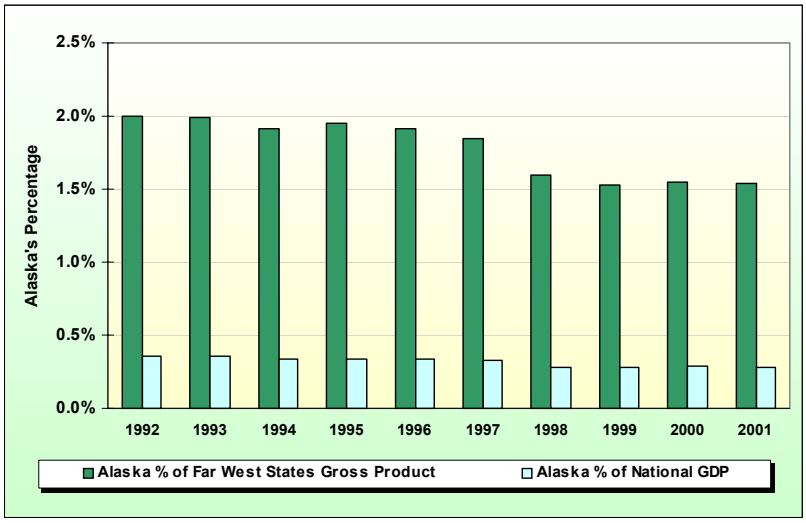
The figure on the right shows the distribution of GSP by sector. Oil and gas production still dominates the economic base, but is decreasing in importance. Retail trade and services in the private support sector now exceed the oil and gas sector by 9%. The finance, insurance and real estate sector (FIRE) makes up a steady 11% of the State's GSP and includes the Alaska Native Corporations. The figure shows the trends in GSP by industry sector for the years 1991, 1996 and 2001. Again, oil and gas predominates, but is declining. Other economic sectors that create new wealth are small, but increases occurred in non-resident tourism, mining and the federal government. State and local government is stable. Manufacturing is in decline primarily due to losses in the timber and salmon industries. The contribution of all of the private support sectors to GSP is increasing; these are construction, transportation, communications, retail trade, services and FIRE. This growth is primarily from increases in capital improvement projects, the Permanent Fund dividend, Native Corporations, and government spending.

Alaska Gross State Product by Industry (Value Added or New Wealth) 1991, 1996 & 2001



Source: BEA and DCED

Alaska Gross State Product as a Percentage of Far Western States Gross Product and U.S. Gross Domestic Product



Source: BEA and DCED

Real Gross State Product (adjusted for inflation) in Alaska and other western states has consistently increased since

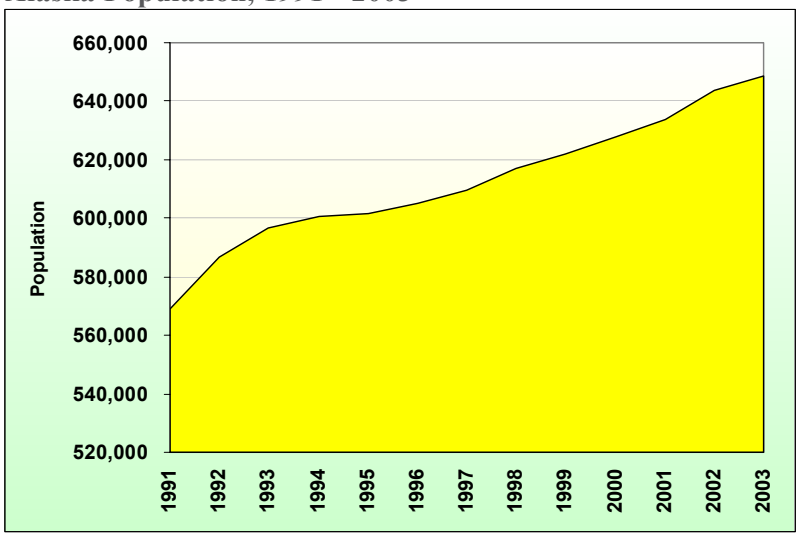
1991. However, the figure on the previous page shows that Alaska's share of the regional and national GSP is decreasing. Alaska's share of regional gross product in western states has decreased from 2.0% in 1992 to 1.5% in 2001. California dominates the western states and is the world's seventh largest economy. Likewise, Alaska's share of the Gross National Product has fallen from 0.4% in 1992 to 0.3% in 2001.

Population

Alaska's population in 2003 was 648,818 – an increase of about 21,886 residents from 2000. One-third of Alaskans are under age 18. Statewide, population has been growing at 1.3% per year over the last decade; however, population growth is not as evenly distributed statewide as it was during the early to mid 1990s. Since 2000, population decreased annually by 4.8% in the Yakutat Borough, 4.0% in Bristol Bay, and 3.5% in Lake and Peninsula. The Interior and Southeast populations are also declining. The Matanuska-Susitna area still dominates population growth, with a 5.4% annual increase since 1990 and is followed by Kenai Peninsula at 2.0%.

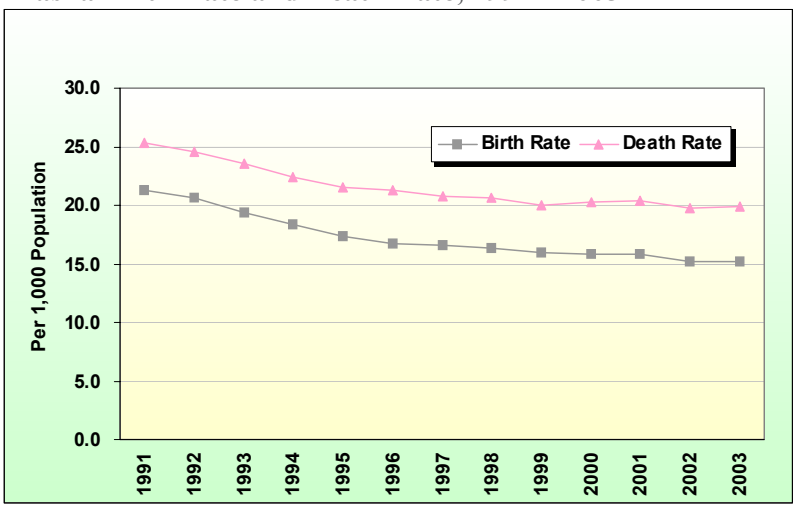
Population change is a function of birth rates, death rates and net migration (in-migrants minus out-migrants). Net migration

Alaska Population, 1991 - 2003



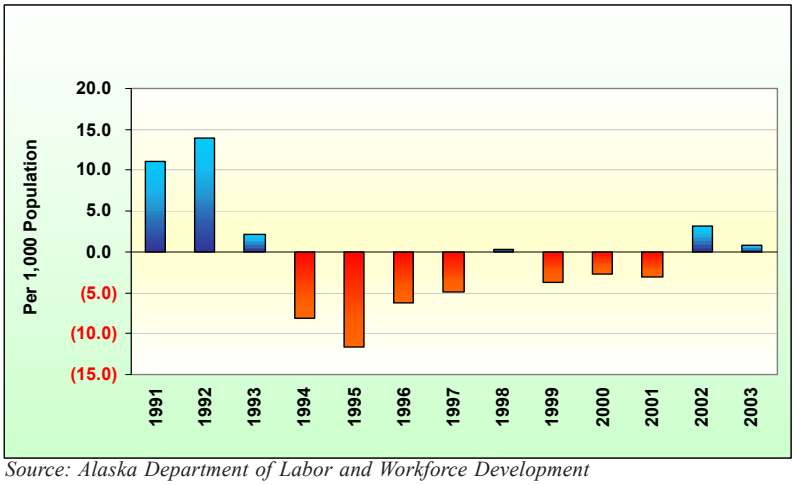
Source: Alaska Department of Labor and Workforce Development

Alaska Birth Rate and Death Rate, 1991 - 2003



Source: Alaska Department of Labor and Workforce Development

Alaska Net Migration, 1991 - 2003



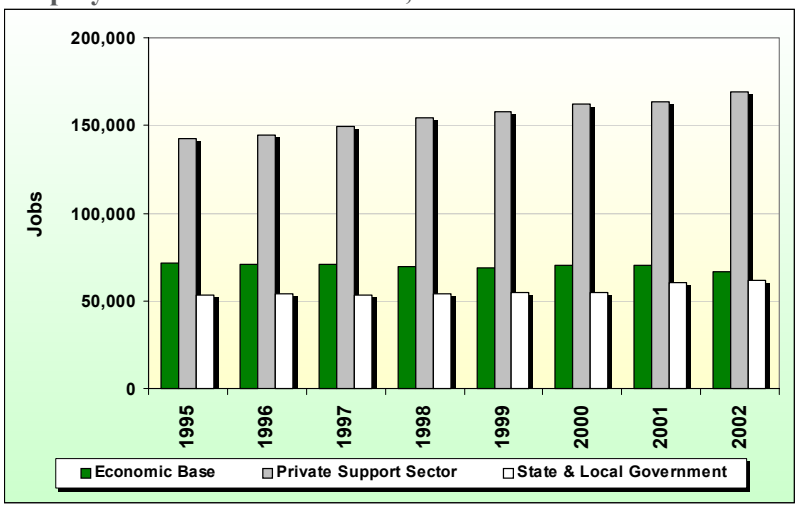
Source: Alaska Department of Labor and Workforce Development

was -469 people in 2003, down from a positive 3,280 people in 2002. Net migration has been generally negative since 1994, with the notable exception of 2002. As the chart on the previous page indicates, Alaska's birth rate has been falling since 1991, and was 15.2 births per 1,000 population in 2003. In contrast, Alaska's death rate has been slightly increasing for over a decade, and was 4.7 deaths per 1,000 population in 2003. Natural increases in population are more than offsetting population losses due to out-migration and death.

Employment and Earnings

In 2003, the annual average wage and salary employment was 299,600 jobs. In addition, an estimated 14,670 jobs were held by Alaska residents in commercial fishing, offshore seafood processing, and the Alaska non-resident tourism industry, and were not included in unemployment insurance reporting. The non-reported jobs are equivalent to 10,220 full time jobs.

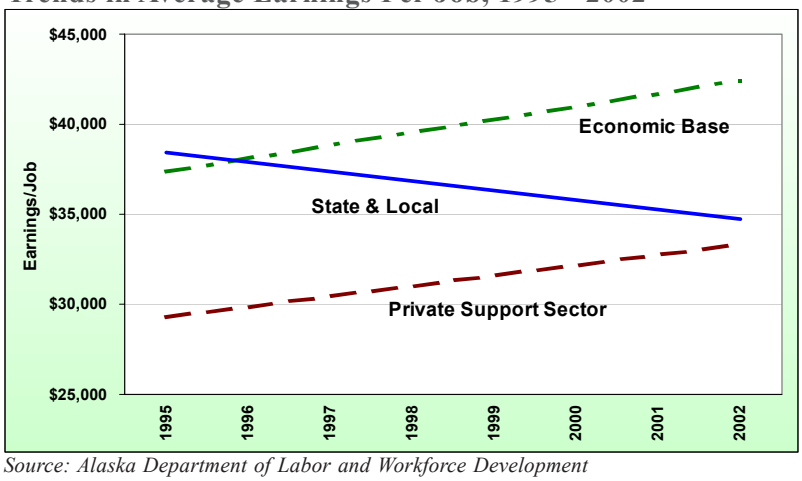
Employment Alaska Statewide, 1995 - 2002



Source: Alaska Department of Labor, Workforce Development

Between 2002 and 2003, about 4,500 jobs were added to Alaska's economy, a growth of 1.5%. Education and health care saw the greatest gain with 2,700 more jobs, followed by government (1,000 jobs), and construction (900 jobs). The biggest decreases were in oil and gas (including oil field services -800 jobs) and general merchandise stores (-700).

Trends in Average Earnings Per Job, 1995 - 2002



Source: Alaska Department of Labor and Workforce Development

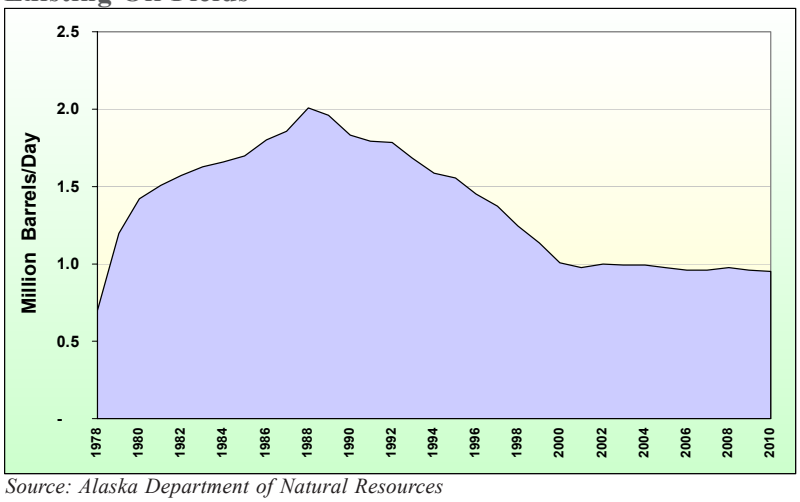
For the first time, 2002 employment and earnings are reported by the new North American Industrial Classification System (NAICS). The new system replaces the Standard Industrial Classification (SIC) which has been used in prior reports. For purposes of this year's report, the NAICS figures are disaggregated into the old SIC scheme so that comparisons to the past can be made. This disaggregation is only valid at the broadest levels. For future reports, all comparisons will be on the NAICS basis only.

Employment earnings for 2002 are estimated at $10.8 billion, up from the inflation-adjusted $10.2 billion in 2001. After adjusting for inflation, the trends of earnings per job since 1996 are strongly positive for the economic base and the private support sector, and negative for State and local government. For the economic base, the upward trend signifies that, while jobs have been lost, the remaining workforce is significantly improving its economic position.

Alaska's Economic Outlook

Oil and Gas. Reduced crude oil production remains one of the key issues in Alaska's economic outlook. Alaska oil production is now half the peak volume of about 2 million barrels per day in 1988. There is a transition on Alaska's North Slope oil fields from major companies to smaller independent companies. This is common to aging oil fields worldwide.

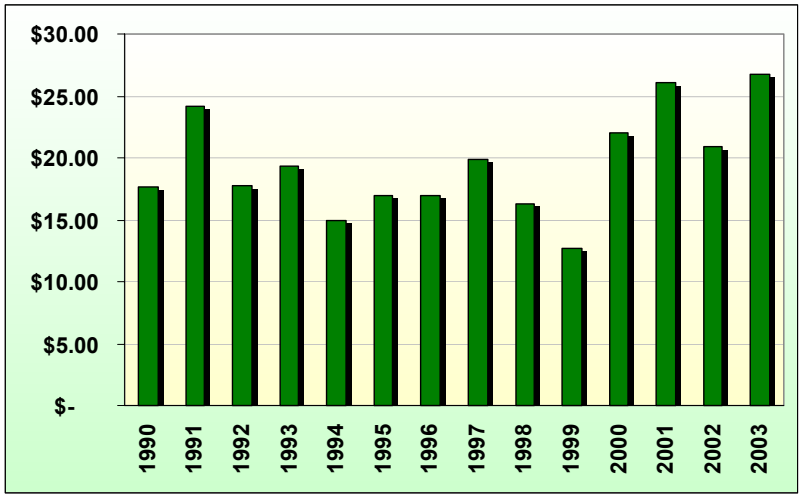
Historic and Projected Alaska Oil Production of Existing Oil Fields



Source: Alaska Department of Natural Resources

Oil prices have been very volatile in recent years. Average North Slope West Coast oil prices averaged $12.73 per barrel in 1999. In 2003 the average was $28.45 per barrel. Despite volatile prices, declining oil production has actually had a greater impact on Alaska's employment and State and local tax revenues than prices.

Oil Prices, Alaska North Slope West Coast, 2003 Real Dollars

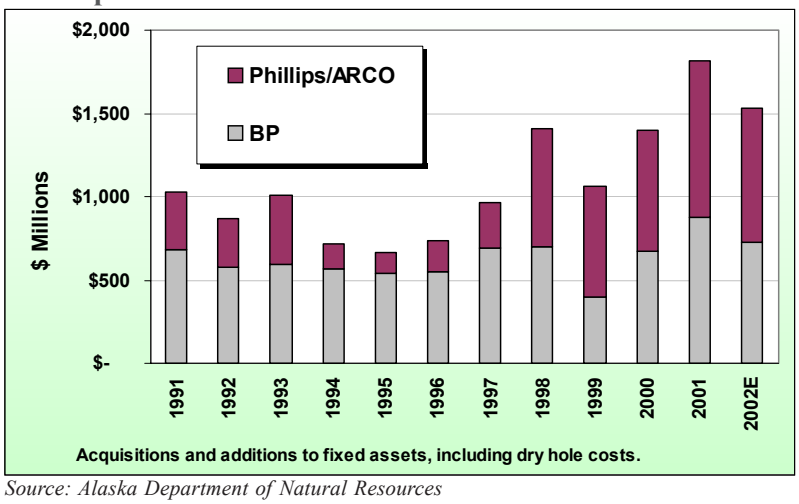


Source: Alaska Department of Natural Resources

These leases and other prospects in the NPR-A, ANWR, Beaufort Sea, and the Central North Slope Satellites provide significant opportunities for Alaska. The State is encouraging exploration in new areas of Alaska and has awarded exploration licenses in the Susitna Valley, the Nenana Basin, the Copper River Basin and on the Alaska Peninsula. Also, the Alaska exploration licensing program has been successful in allowing smaller independent companies to get a

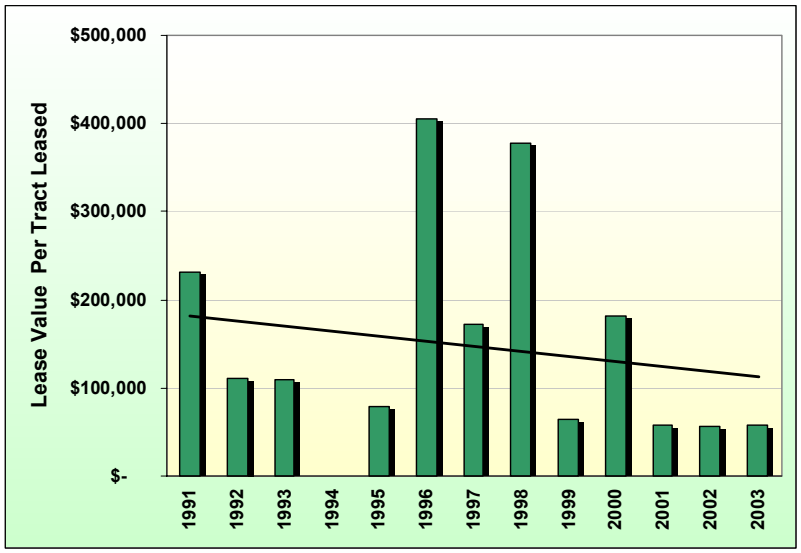
foothold in the State. Because crude oil is such an essential part of Alaska's economy, less oil production has a large impact on the dollars circulating in the economy.

Oil and Gas Capital Expenditures, Exploration and Development



Source: Alaska Department of Natural Resources

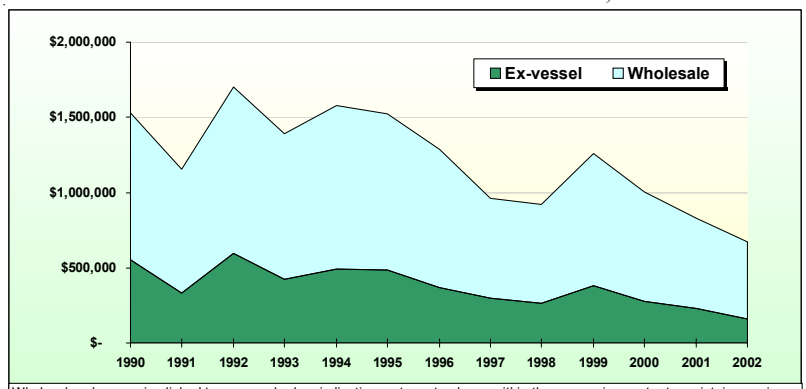
Oil and Gas Lease Activity: North Slope, Beaufort Sea and NS Foothills



Source: Alaska Department of Natural Resources

Seafood. Significant weakness in the Alaska salmon industry has impacted the economy. Since 1993, Alaska salmon has been in general decline (with the exception of 1999). The loss of income from salmon has devastated many local economies — especially in western Alaska. Worldwide production of farmed salmon and an oversupply of wild salmon from other countries are outpacing the demand for Alaska salmon. Until balance between supply and demand is achieved, Alaska salmon fishermen and processors will face an uncertain future at best. To better compete, the average quality of Alaska's wild salmon products must improve, domestic markets need to be developed, and marketing efforts need to be greatly expanded. Alaska salmon was once the biggest portion of the state's seafood sector, but was surpassed by groundfish in 2000. The 2002 ex-vessel value of the North Pacific groundfish industry was estimated to be $328.9 million, while salmon was valued at $129.9 million. The State Administration has responded by securing $50 million in federal funds for its Fisheries Revitalization Strategy. The Strategy provides funds to impacted individuals and communities, and for innovative fisheries economic development and salmon marketing projects.

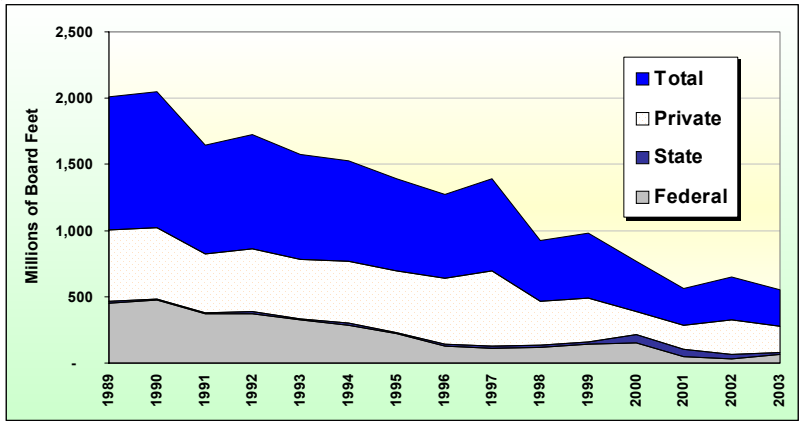
Alaska Salmon: Ex-Vessel v. Wholesale Value, 1990 - 2002



Wholesale value remains linked to ex-vessel value, indicating a strong tendency within the processing sector to maintain margins. During the years 1990 - 1996, the average mark-up wholesale price over ex-vessel was 118%. During 1997-2002, the average wholesale mark-up over ex-vessel was 165%. As the value fell in the wholesale market, more of the hit was absorbed by the raw material providers (harvesters). In 2002, the wholesale mark-up was 261%.

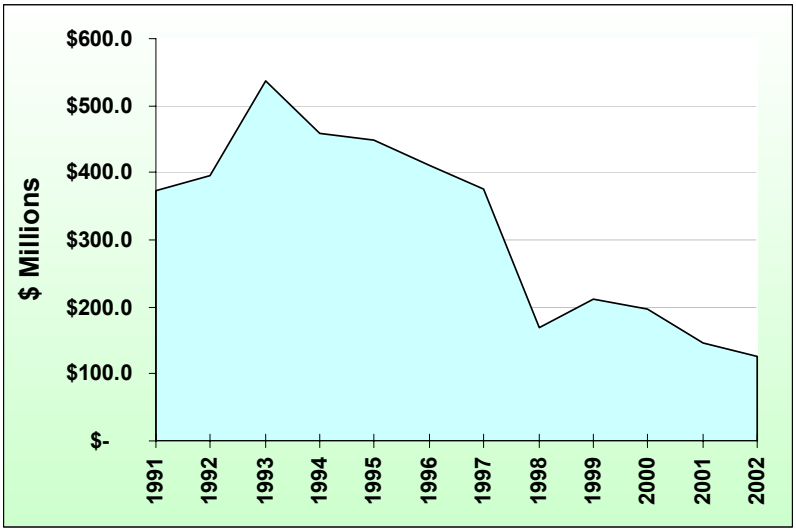
Wood Products. Another Alaska economic sector experiencing contraction is the forest products industry. Most Asian export markets are demonstrating a downturn in timber demand. Pulp mills in Sitka and Ketchikan closed in 1993 and 1997, respectively. The Tongass Land Use Management Plan (TLMP) reduced annual allowable harvest levels to 150 million board feet (mmbf); however, actual harvest rates have been well below this limit. A court-ordered supplemental environmental impact statement to evaluate roadless areas for wilderness protection resulted in the U.S. Forest Service's decision of no further wilderness additions. The Forest Service is recommending wilderness protection for 1.4 million acres in the Chugach National Forest, which now totals 5.4 million acres.

Alaska Timber Harvests Sawlogs and Utility Logs



The State Administration is advocating for creation of a new 1.7 million-acre State Forest from the existing Tongass National Forest. This is equivalent to the commercial forestland base that is available for harvest under the 1997 Tongass Land Management Plan. The Forest Service is allowing timber companies to cancel old timber sales in order to purchase new sales having longer contract terms (10 years.)

Alaska Timber Export Value



About two percent of Alaska's State-owned land is in two designated State forests. In 1982, the Legislature established the 270,410-acre Haines State Forest in the Chilkoot, Chilkat, and Ferebee River drainages. The next year, it created the 1.8 million-acre Tanana Valley State Forest that stretches from Manley to Tok. In addition to these two designated State forests, much of the State's public domain land is available for timber harvesting. In 2002, the Alaska Legislature changed the management mission for State forests from multiple-use to timber management. Notwithstanding this change, existing forest plans are still in place, including management objectives for resources other than timber. During the planning process, the new mandate puts a higher priority on timber resources when other resource conflicts exist. The Forest Practices Act remains in force.

Minerals. The Alaska mineral industry produced $1.017 billion in commodities in 2002, a 5.2% decline from the previous year. The figure at right shows expenditures for mineral exploration, development and production from 1981 to 2003. As in the past few years, zinc was the

Total Value of the Mineral Industry in Alaska, by Year, Millions of Dollars

	Exploration (expenditure)	Development (expenditure)	Production (value)	Total
1981	76.3	24.7	188.6	289.6
1982	45.6	41.6	196.4	283.7
1983	34.1	27.9	212.4	274.4
1984	22.3	53.4	199.4	275.1
1985	9.2	34.1	226.6	269.9
1986	8.9	24.3	198.5	231.7
1987	15.7	100.3	202.4	318.4
1988	45.5	275.0	232.2	552.6
1989	47.8	134.3	277.0	459.0
1990	63.3	14.3	533.0	610.6
1991	39.9	25.6	546.5	612.0
1992	30.2	29.6	560.8	620.6
1993	30.3	27.7	448.7	506.7
1994	31.1	45.0	507.5	583.6
1995	34.3	148.6	537.2	720.1
1996	44.7	394.0	590.4	1,029.2
1997	57.8	168.4	936.2	1,162.4
1998	57.3	55.4	921.2	1,033.9
1999	52.3	33.8	1,032.9	1,119.1
2000	34.9	141.7	1,106.4	1,283.0
2001	23.4	81.2	917.3	1,021.9
2002	26.5	34.1	1,010.0	1,070.6
2003	20.9	15.9	980.3	1,017.1
TOTAL	**$831.4**	**$1,915.0**	**$11,581.6**	**$14,328.1**

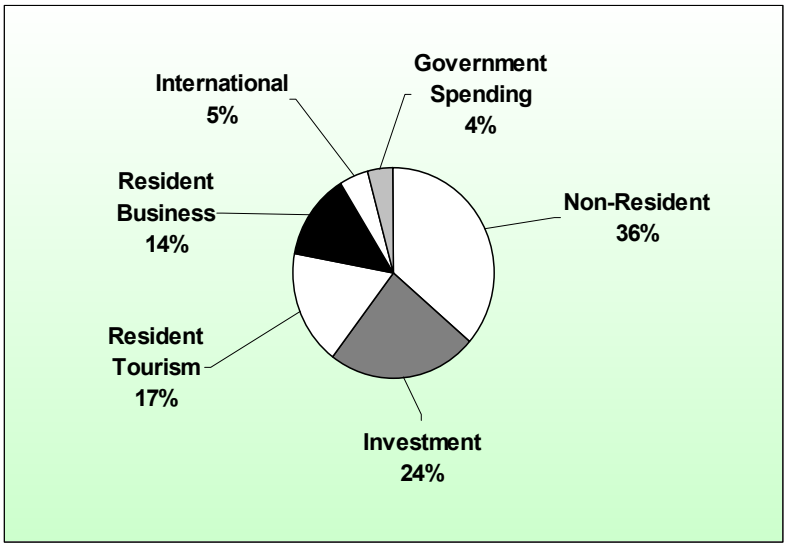
Source: Alaska's mineral industry reports published annually by DGGS.

most valuable metal produced, with a gross value of $486.9 million, representing 58% of the total metal value. Gold ($191.9 million), silver ($90.7 million) and lead ($70.1 million) follow in value.

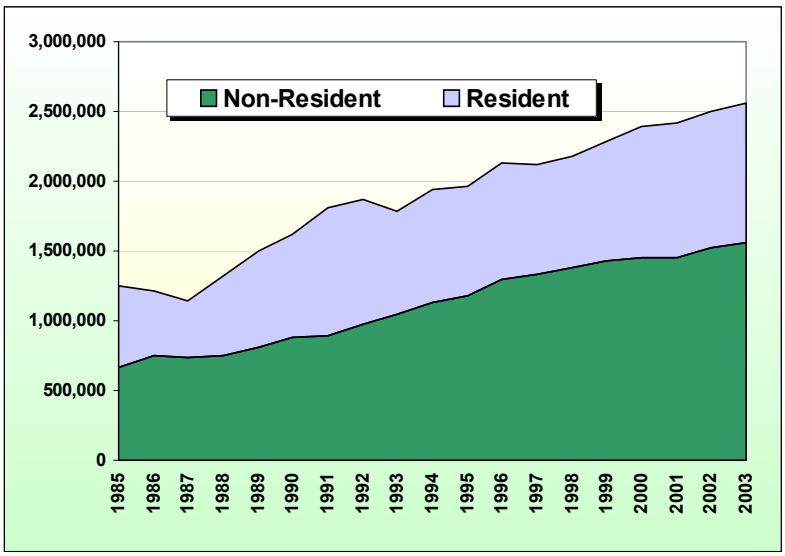
There are several large projects in development, including construction of the Pogo Gold mine near Delta Junction in 2004, the Donlin Creek Gold project in the Middle Kuskokwim, the Kensington Mine near Juneau, and the Rock Creek Mine near Nome. Continuing discoveries are also occurring near the Red Dog Mine, north of Kotzebue.

Tourism. Tourism remains strong in spite of a general slowdown in travel due to world economic conditions and the aftermath of the events of 9/11. Based on a new study, the Alaska Travel and Tourism Industry, which caters to both residents and non-residents, provides 26,000 full-time equivalent jobs. This makes it the largest employer of the economic base industries. Of $2.4 billion in gross sales, the economic contribution to Alaska's economy is $1.5 billion. Gross sales include capital investments such as park improvements and other investments such as public/ private marketing.

Alaska Travel and Tourism Sales, 2002



Total Arrivals For All Travel Modes

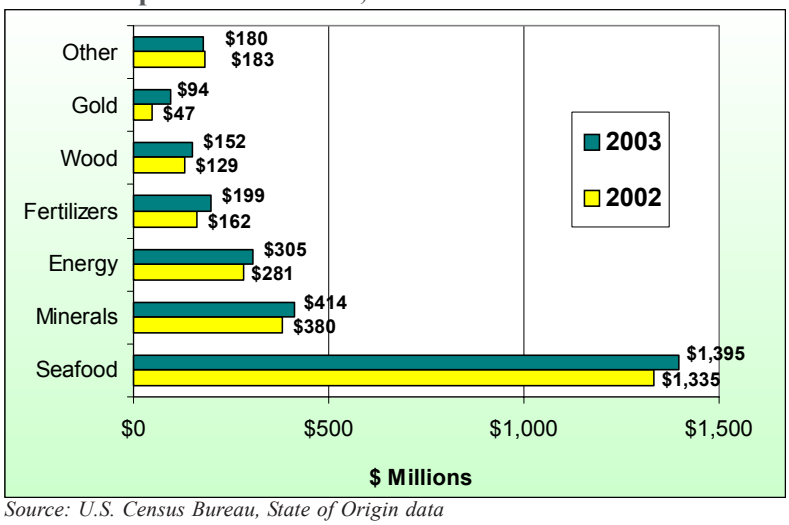


An estimated 1.56 million visitors came to Alaska between October 2002 and September 2003 — an increase of 2.2% over 2002. Cruise ship traffic is still growing strong, by an estimated 6.8% between 2002 and 2003. The figure at right shows the increase in total arrivals from 1985 - 2003. There was a sharp increase in international air arrivals (+38%) last year, primarily due to new flights from Vancouver, British Columbia.

Alaska Export Markets

Alaska's exports totaled $2.71 billion in 2003, up by 7.1% from 2002. Seafood is the largest export product, valued at $1.4 billion in 2003, up by 5% from 2002. Mineral exports were up 8% from 2002. Other export commodities include fertilizers, wood products, and oil and gas.

Alaska Exports Worldwide, 2002 - 2003



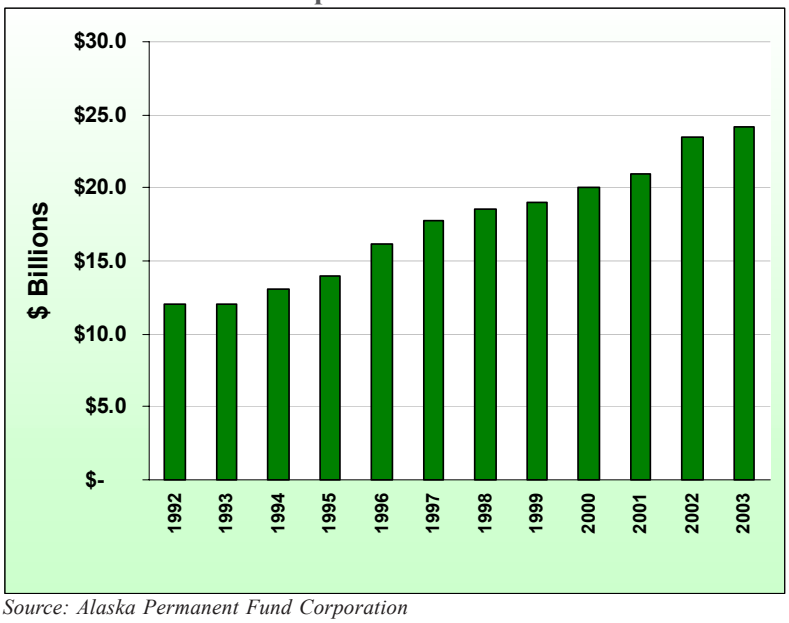
Source: U.S. Census Bureau, State of Origin data

Japan remains Alaska's largest customer, importing $1.03 billion of Alaska products in 2003. Korea is Alaska's second-largest trade partner, importing $570 million of products. Alaska-Korea trade is up substantially from 2002, by 36%. The greatest growth in trade is with Canada, up by 49% from 2002. China, Germany, Belgium and Mexico are other major trade partners.

Alaska Permanent Fund

While net earnings have been greatly reduced in recent years, the Alaska Permanent Fund continues to increase and had a principal of $24.2 billion in 2003. The relative economic importance of the Permanent Fund dividend depends largely on location. Of total cash from all sources, dividends comprise about 6% to 8% of cash in urban Alaska and from 8% to 21% in rural Alaska. Moreover, most of the rural dividends are directly or indirectly spent in urban Alaska.

Permanent Fund Principal 1992 - 2003



Source: Alaska Permanent Fund Corporation

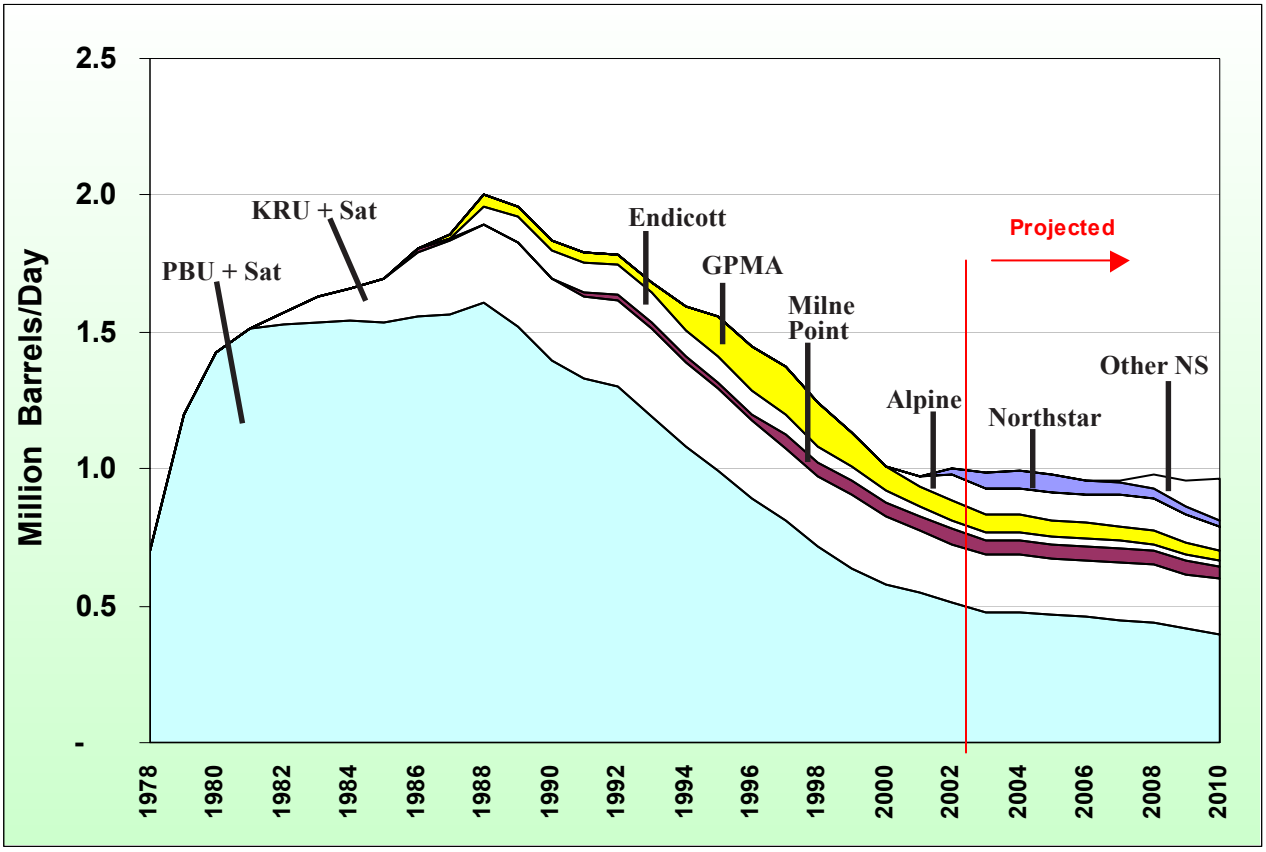
Conclusion

Alaska faces challenges as it works to strengthen and diversify its economy. Nonetheless, Alaskans should remain optimistic about the future. Alaska's economy continues to add jobs. Economic stability continues due to long-term oil production and more import substitution in the retail trade and services sectors. Federal spending is at a record high, which together with State spending (including the Permanent Fund dividend), are the primary drivers in retail trade and services. Lastly, Alaska still has vast natural resources — oil, minerals, fish and timber, scenic beauty and wildlife, as well as a strategic commercial location relative to the growing Pacific Rim economies. Future expansion of the economic base such as hard rock mining, air cargo, tourism, medical services, and federally-funded construction will begin to offset declines in State spending. The challenges are to find a balance between development and preservation, and to meet increasing global competition in the world marketplace.

Oil and Gas Industry

The oil and gas industry includes the exploration, development and production of oil and gas products. In the past, the industry included oil and gas field services and pipeline transportation. These industries are now sectors within the service providers, under the new North American Industrial Classification System (NAICS.) The oil and gas industry is a major economic driver for the state, directly and indirectly employing 17% of the total wage and salary workforce. Alaska currently has two commercially active oil and gas regions — Cook Inlet and the North Slope.

Historic and Projected Alaska Oil Production

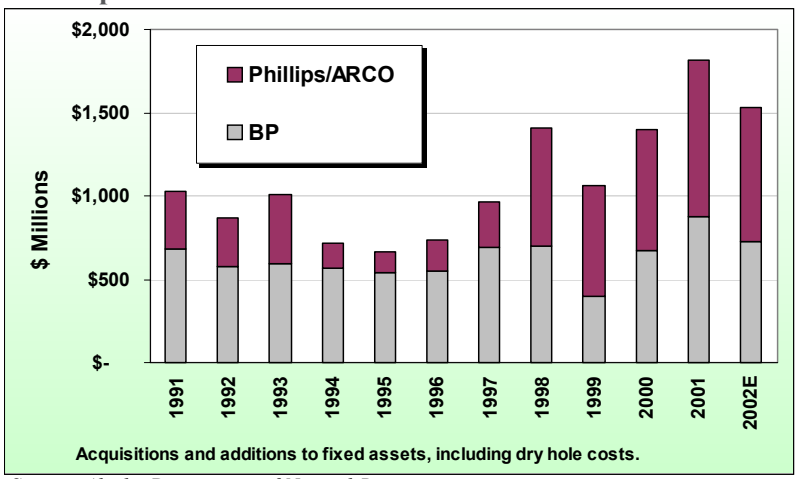


Source: ADOR Revenue Source Book Spring 2002.

The North Slope, on the Alaska Arctic coast, is the largest operating oil field in the United States, having produced 13.7 billion barrels of oil since production began in the late 1970s, with an estimated 5.4 billion barrels of oil still in the ground. A number of other North Slope oil units have come on-line to supplement the Prudhoe Bay Unit's production that has declined significantly over the last 15 years. Total North Slope oil production is expected to level out at about one million barrels per day through 2010, assuming that annual investments in exploration

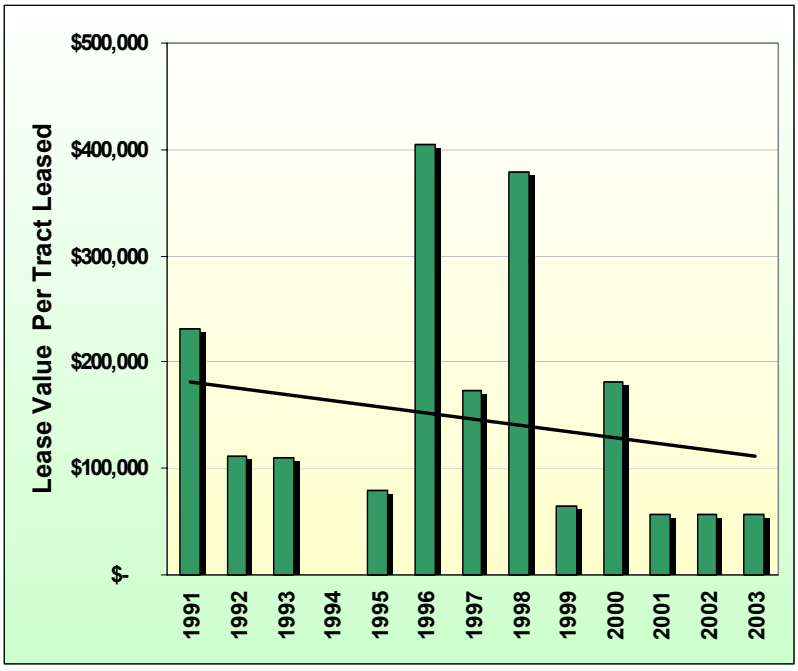
and extraction average $1.7 billion each year. Despite the great variation in the average value of State oil and gas leases, there is an overall downward trend in investments from 1991-2003. This trend is more pronounced since the advent of areawide leases in 1998. In response, the State is encouraging exploration in new areas of Alaska and has awarded three exploration licenses in the Susitna Valley over a primary term of seven years. Other exploration licenses have been awarded in the Nenana Basin, Copper River Basin and Alaska Peninsula/Bristol Bay. Also, the Alaska exploration licensing program has been successful in allowing smaller independent companies to get a foothold in the state. Marathon Oil has plans to drill 8 to 10 new wells on the Kenai Peninsula in 2004.

Oil and Gas Capital Expenditures, Exploration and Development



Source: Alaska Department of Natural Resources

Oil and Gas Lease Activity
North Slope, Beaufort Sea and NS Foothills



A provision of the federal Energy Bill is a $3 per barrel tax credit for heavy oil. Less than 5% of the oil flowing through the pipeline is heavy oil, but the in-place volume of heavy oil is 20-25 billion barrels. Other oil fields such as West Sak, Schrader Bluff and Orion have thicker and colder oil which is technically not heavy oil, but likewise is lower in quality and more difficult to extract. If the tax incentives pass, ConocoPhillips predicts a fast response in development. Likewise, BP estimates that investment could reach $500 million alone for the Orion field, which will require more than 100 wells.

Oil and gas production from Cook Inlet is refined for domestic and international markets, and natural gas is distributed for residential and commercial use in the upper Kenai Peninsula, Anchorage and Mat-Su Valley. A gas pipeline is planned for construction from the City of Kenai to the community of Ninilchik. Several smaller independent oil companies have shown increased interest in Cook Inlet oil and gas exploration and production since the mid 1990s, leading to renewed drilling and production.

Little activity is occurring on Alaska's federal Outer Continental Shelf, where oil and gas development and production faces significant environmental and economic challenges. Most of the Outer Continental Shelf is distant from existing infrastructure and is unexplored, although the federal Minerals Management Service has prepared detailed resource estimates for fifteen Alaska offshore planning areas.

The State's new shallow gas leasing and coalbed methane programs are designed to develop lower cost energy sources in rural areas. Currently there are 72 active shallow gas leases consisting of 275,286 acres in the Mat-Su Valley, Kenai Peninsula, Tanana River Valley and in the Northwest Arctic Borough near the Red Dog mine. There are also 25 pending leases: 13 in the Mat-Su Valley, 8 near Healy, and 4 near Sleetmute in western Alaska.

To encourage development, non-competitive shallow gas leases were designed for fields within 3,000 feet of the surface. However, controversies exist between developers and local land-owners. Developers have the right to develop the mineral rights, even if surface owners do not consent. Evergreen Resources holds the core leases in the Mat-Su Borough, where surface owners are requesting a lease buy-back. Evergreen Resources has drilled eight test wells, none of which were economic.

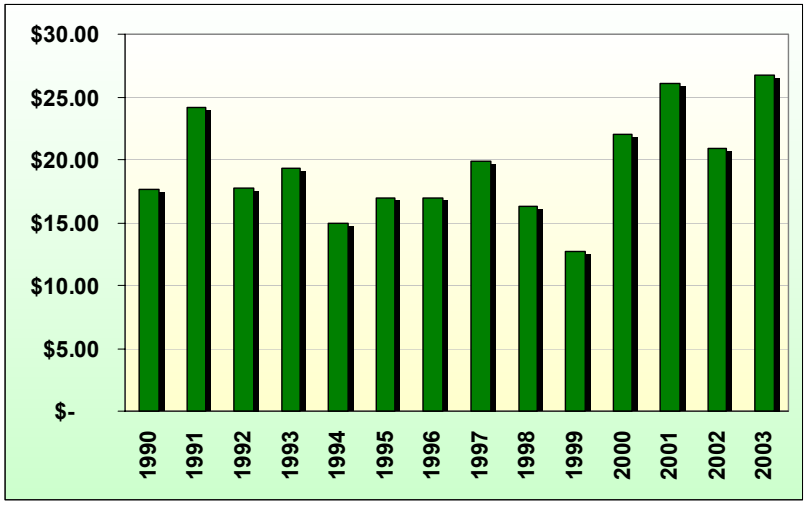
Employment and Earnings

Employment in oil and gas extraction, pipelines and mining support was 9,855 in 2002, and compares with 9,823 total jobs in the oil and gas industry in 2001 reported under the old Standard Industry Classification scheme. Wages and salaries were $945 million in 2002, up from $910 million in 2001.

Royalties and Taxes

In addition to significant employment and earnings, the oil and gas industry generated almost $2.1 billion in revenues to the State of Alaska for FY 2003, up from $1.9 billion in FY 2002. This includes about $599 million in severance taxes, $840 million in royalties, $151 million in corporate income taxes, and $48.7 million in property taxes. Additionally, $403.8 million in royalties went into the Alaska Permanent Fund. State and some local government services are greatly dependent on the oil industry. Oil revenues represent 84% of all State General Fund unrestricted revenues.

Oil Prices, Alaska North Slope West Coast 2003 Real Dollars



New Paradigm for Oil Prices. The Asian financial crisis began in 1997 and drastically reduced the world demand for petroleum. Asia has been responsible for the lion's share of energy growth. Iraq quadrupled their production and exacerbated the weaker demand. To maintain market shares, other OPEC countries also boosted production. During 1997-1998, prices crashed as the world oil supply grew by 3.1 million barrels but demand grew by only 2.4 million. Alaska North Slope (ANS) crude prices fell to the lowest level since before the discovery of Prudhoe Bay. By FY 1999 the average annual price of ANS was $12.73/barrel and the State borrowed over a billion dollars from the Constitutional Budget Reserve to balance the budget. In January 1999 OPEC adopted a new target price range of $22 to $28/barrel, which in turn led to an upward shift in world prices that has continued to the present. Alaska oil revenue forecasts before the OPEC shift were generally between $17-$19 per barrel and are now generally between $24-$28 per barrel. Recent oil prices have exceeded $30 per barrel.

Normally, when average prices exceed the top end of the OPEC range, there are recession pressures on the world economy, there is more production from non-OPEC producers, and consumers adopt more conservation measures. Jointly, these impacts reduce oil prices to within the OPEC range. Currently, OPEC is again trying to increase their target range to over $30 per barrel by using the growing worldwide demand for gasoline, China's expanding energy needs, and uncertainties over the Iraq war as their catalyst. A planned 4% cut back in OPEC production is designed to increase prices to $40 per barrel – considered a psychological barrier. The success of OPEC's effort is uncertain at best, as oil futures actually decreased when OPEC made their announced cut back. Simply stated, investors believe OPEC members will exceed their quotas.

Industry Issues and Outlook

Prudhoe Bay Declines. The most significant trend in Alaska's oil and gas industry is declining production from Prudhoe Bay, which, because of its huge size and production levels, sends ripples throughout the economy. These "ripples" affect oil industry employment in offices, in the fields, and in support industries. It affects services and State government income directly and many other services and businesses indirectly.

National Petroleum Reserve. It is very likely that the next oil patch to be developed will be the National Petroleum Reserve-Alaska (NPR-A). Its proximity to Prudhoe Bay infrastructure improves its potential. Over $64 million in NPR-A oil and gas leases were sold in June of 2002. A North Slope access road will be extended from Deadhorse to the village of Nuiqsut. This road will cross the Colville River and will cost an estimated $150 million, including the Colville bridge at $120 million. The road will permit test drilling to double over current rates.

Natural Gas Pipeline. There is considerable interest in the construction of a natural gas pipeline to bring Prudhoe Bay gas to market. Routing alternatives are along the Alaska Highway to Alberta, Canada or along the existing oil pipeline to Valdez. The gas line, estimated to cost up to $20 billion depending on routing, enjoys strong political support, but both prices and markets must be secure to prompt investment.

There are 35 trillion cubic feet of known reserves of stranded natural gas on the North Slope, with total estimated reserves of 100 trillion cubic feet. Construction of a natural gas pipeline is a top priority of the State Administration. Every day there is enough natural gas re-injected into the North Slope to meet the entire demand of California. Incentives to build the gas pipeline are included in the pending Energy Bill in Congress, including $50 million for energy development. The interest in a natural gas pipeline also brings the hope of an associated liquefied natural gas pipeline and export facility in Alaska.

New Cook Inlet Discoveries. The state's second active oil and gas producing region is in Cook Inlet, within the boundaries of the Kenai Peninsula Borough. Several smaller independent operators have succeeded to leases formerly held by major oil and gas companies. Using new exploratory and drilling techniques, these operators have re-invigorated interest in the region. With improved techniques and the possibility of new discoveries, Cook Inlet could be producing gas for local markets and for export for many more years. The presence of independent oil companies using new exploration techniques and drilling technologies offers hope that Cook Inlet can remain a producing oil and gas region at levels above current production forecasts.

Aging Infrastructure. The Trans-Alaska Pipeline System (TAPS) and oil field infrastructure at Prudhoe Bay is aging and will require continued attention. The maintenance, upgrade and replacement of production, camp and transportation equipment and infrastructure represents an ongoing cost for North Slope producers and the TAPS operator even as field production declines. The Arctic climate poses severe challenges to the safety and operation of buildings, equipment, pipelines and machinery, making inspection and improvement essential costs.

Coalbed Methane. The State of Alaska is exploring for coalbed methane gas at three locations around the state: near Chignik on the Alaska Peninsula; near Fort Yukon at the confluence of the Porcupine and Yukon Rivers; and near Wainwright on the Arctic coast. The exploration program will provide valuable information on development costs and feasibility.

Other Oil Field Resources. Exploration is taking place in the Nenana Basin in Interior Alaska, in the Copper River Basin near Glennallen and on the Alaska Peninsula/Bristol Bay. Exploration is also planned at the Katalla oil field near Cordova, where oil was produced from early in the 20th century through the 1920s. Gas or oil discoveries in Interior basins, if economic, could provide for local energy needs; however, much exploratory work will be needed to determine whether commercial quantities of gas can be developed. Oil exploration and development in the Arctic National Wildlife Refuge (ANWR) is pending congressional approval.

Outer Continental Shelf. The U.S. Department of Interior has approved the federal Minerals Management Service's 2002–2007 Outer Continental Shelf leasing program. Eight lease sales are planned: Beaufort Sea in 2003, 2005 and 2007; Chukchi Sea/Hope Basin in 2004 and 2007; Cook Inlet/Shelikof Straits in 2004 and 2006; and Norton Sound in 2003. Resource estimates indicate the potential for significant amounts of oil and gas, however, further exploration is needed to determine actual reserves, and offshore development is expected to be both costly and lengthy. The Minerals Management Service is attempting to see whether the gas-prone Hope Basin can be developed for local use, for both nearby communities and the Red Dog mine.

Seafood Industry

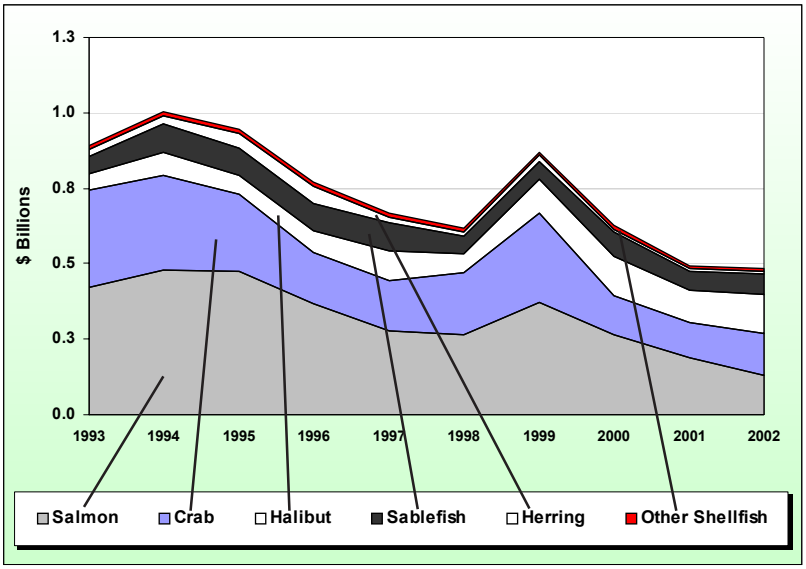
The seafood industry is blessed with abundant and lucrative commercial resources, but is also under constant pressure to keep up with technical advances in fishing and seafood processing, and to maintain and improve its global market position. While total commercial harvests have remained fairly constant in recent years, the value of the catch is declining, largely due to the salmon fishery, which competes with farmed salmon. Nonetheless, there is a major growth potential for the economy, as many important components of the industry could be relocated to Alaska where the bulk of the resource is harvested.

Seafood Harvest Value

Approximately 2.0 million metric tons (5.1 billion pounds) of fish and shellfish were harvested in Alaska waters in 2002, with a value to the harvesting sector of $811.5 million. For comparison, the catch in 2001 was nearly the same, but the value was higher at $869.9 million. The charts show the ex-vessel harvest value between 1993 and 2002. Alaska processors earned wholesale values in excess of $1.5 billion in 2002. Exports of Alaska seafood contributed $2.5 billion to the U.S. balance of trade.

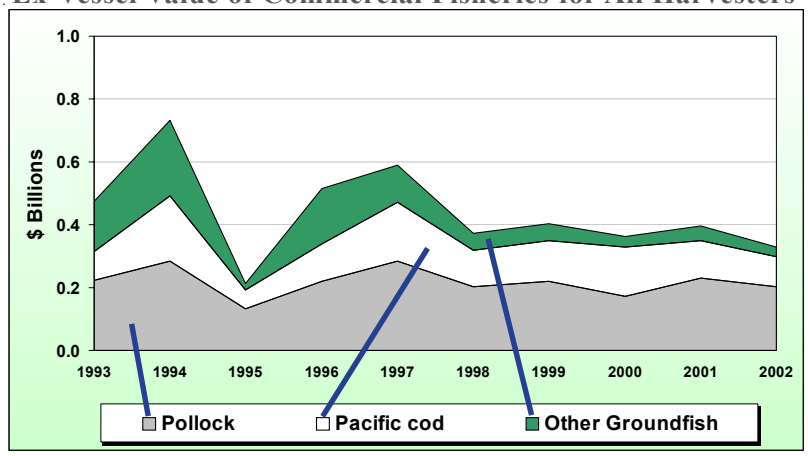
Fifty-four percent of U.S. commercial seafood harvest by weight came from Alaska in 2002. In terms of the value harvested in 2002, Alaska had two of the country's five top fishing ports. Dutch Harbor (in Unalaska) and Kodiak produced $136 million and $63.3 million in ex-vessel value, respectively. Alaska has 12 of the nation's top 93 fishing

Alaska Seafood Industry,
Ex-Vessel Value of Commercial Fisheries for All Harvesters



Source: State of Alaska, Commercial Fishing Entry Commission; and Alaska Fisheries Information Network

Alaska Groundfish Industry,
Ex-Vessel Value of Commercial Fisheries for All Harvesters

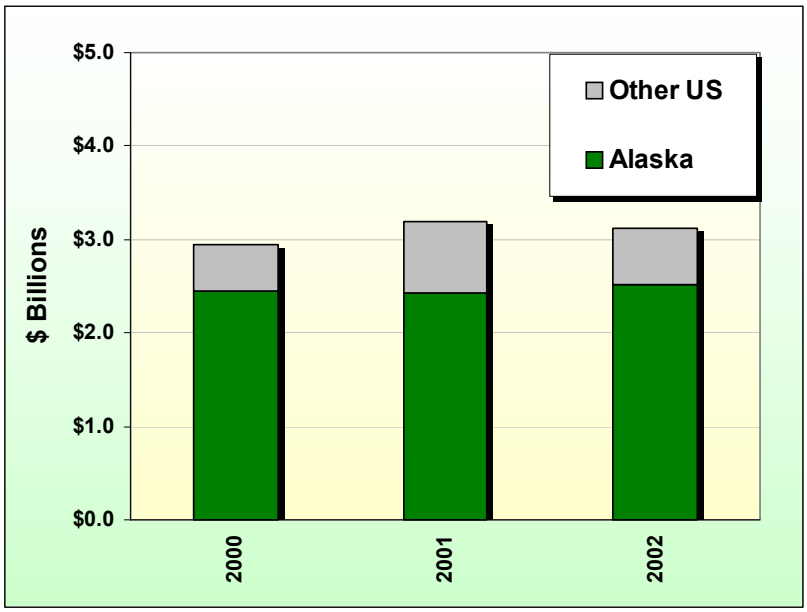


Source: State of Alaska, Commercial Fishing Entry Commission; and Alaska Fisheries Information Network

ports as shown in the table below. New Bedford, Maine was ranked number 1. Bellingham, Seattle, and Tacoma were ranked 36th, 76th and 82nd respectively. Dutch Harbor may be Alaska's busiest port; however, as shown in the chart on the following page, residents from Kodiak Island earn more from fishing than residents of any other region of Alaska.

Alaska Salmon. A significant weakness in the Alaska salmon industry has impacted the economy. Since 1993, Alaska salmon has been in general decline (with the exception of

Alaska and Other U.S. Edible Seafood Exports

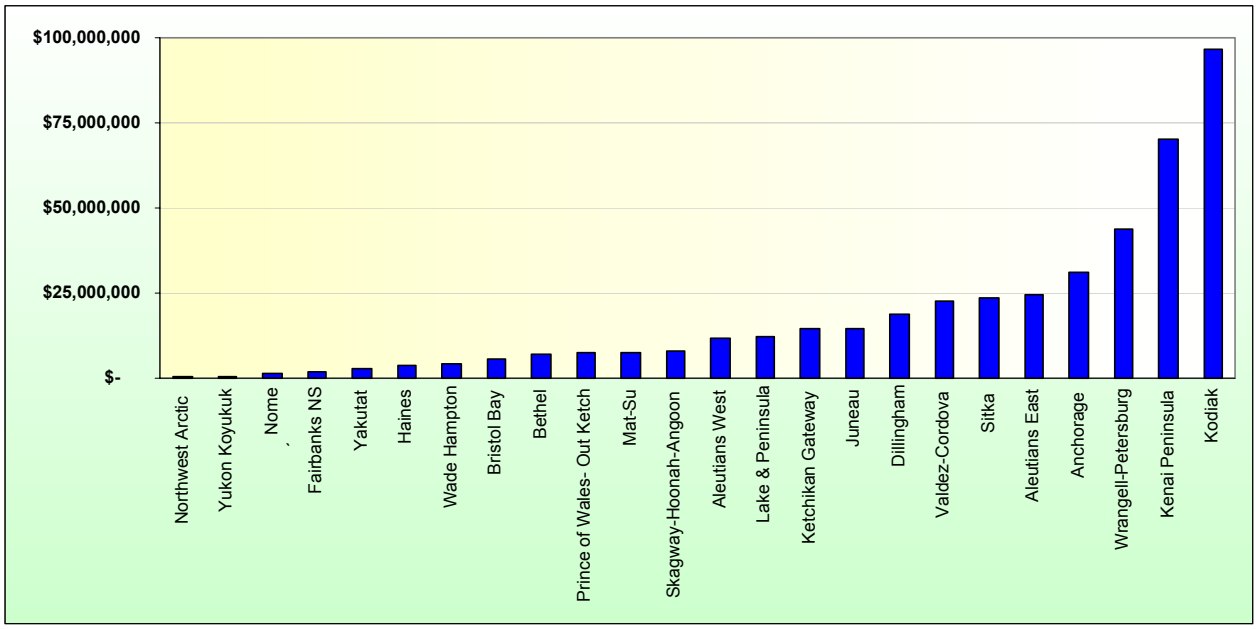


Source: State of Alaska, Commercial Fishing Entry Commission; and Alaska Fisheries Information Network

Port	National Rank	Pounds Millions	Dollars Millions
New Bedford, MA	***1***	***108.9***	***$169.00***
Dutch Harbor	2	908.1	$136.00
Kodiak	4	250.0	$63.30
Homer	11	30.5	$39.40
Seward	16	38.2	$31.10
Sitka	20	69.6	$28.10
Cordova	24	59.2	$26.20
Bellingham, WA	*36*	*23.6*	*$18.80*
Petersburg	38	57.3	$19.00
Ketchikan	46	73.2	$12.80
Kenai	50	19.6	$11.60
Juneau	55	6.4	$10.40
Wrangell	67	12.0	$7.50
Seattle, WA	***76***	***7.0***	***$6.30***
Naknek-King Salmon	82	9.8	$4.30
Tacoma, WA	***85***	***3.1***	***$4.20***
Haines	90	8.5	$3.00
Craig	93	1.7	$1.70

Source: NOAA Fisheries for 2002

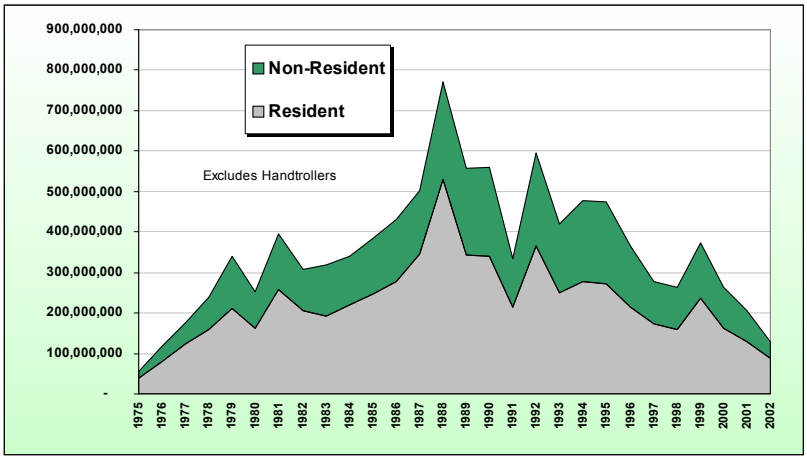
Average Commercial Fishing Gross Earnings 1990 - 2002 by Residents



Source: State of Alaska, Commercial Fishing Entry Commission; and Alaska Fisheries Information Network

1999). The loss of income from salmon has devastated many local economies – especially in western Alaska. Fisheries-related jobs provide for about 74% of the wages from economic activity in Western Alaska. This area is responsible for up to half of the world's sockeye salmon harvest in some years. Very little economic opportunities exist in these remote regions to offset salmon losses.

Ex-Vessel Value — Salmon Fisheries



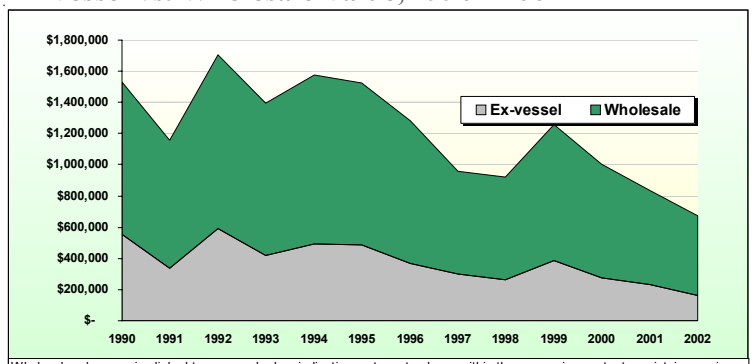
Source: CFEC and ADF&G

Worldwide production of farmed salmon and an oversupply of wild salmon from other countries are outpacing the demand for Alaska salmon. Until balance between supply and demand is achieved, Alaska salmon fishermen and processors will face an uncertain future at best. To compete, Alaska salmon has to become known as one of the

best quality salmon sources in the world. On September 5, 2000, the Marine Stewardship Council certified Alaska's statewide commercial salmon fisheries program as well managed and sustainable. Alaska's was the only salmon fishery in the world to meet the council's rigorous environmental standards and earn this distinction. Yet even as Alaska's preeminence in biological management was being recognized, Alaska's salmon fishermen had fallen on hard times.

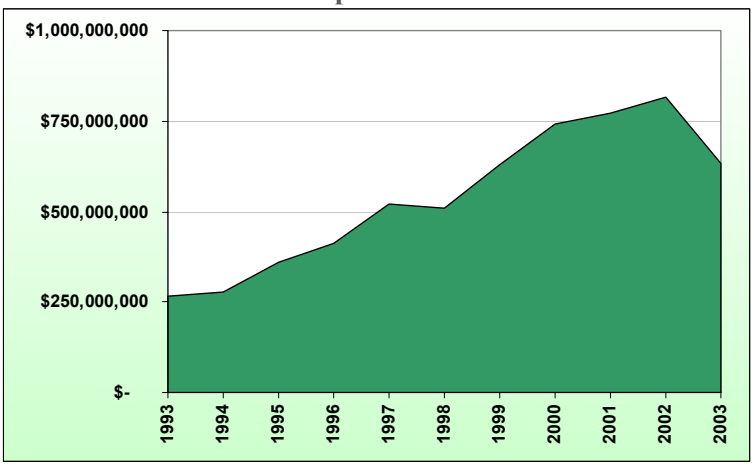
In response, the federal government funded a $50 million salmon industry revitalization strategy, which includes aid for individual fishermen, aid for struggling communities, economic development grants, salmon marketing grants, and other programs.

Alaska Salmon
Ex-Vessel vs. Wholesale Value, 1990 - 2002



Wholesale value remains linked to ex-vessel value, indicating a strong tendency within the processing sector to maintain margins. During the years 1990 - 1996, the average mark-up wholesale price over ex-vessel was 118%. During 1997-2002, the average wholesale mark-up over ex-vessel was 165%. As the value fell in the wholesale market, more of the hit was absorbed by the raw material providers (harvesters). In 2002, the wholesale mark-up was 261%.

Chile Farmed Salmon Export Value



Fisheries Management Systems

There are over 100 commercially valuable species harvested around Alaska. The State of Alaska, with a Constitutional mandate to manage its resources for sustainability, manages all nearshore fisheries, up to 3 miles from shore. It also exercises lead management responsibility for several species throughout the U.S. Exclusive Economic Zone (EEZ) off of Alaska under extended or joint jurisdiction with the federal government. These include salmon, crab and several lesser resources. The federal government is primarily responsible for the other offshore EEZ fisheries, 3 to 200 miles from shore, which include pollock, Pacific cod, sablefish and other groundfish. Halibut harvests are set by the International Pacific Halibut Commission and are managed by the federal government.

Fisheries Taxes and Fees

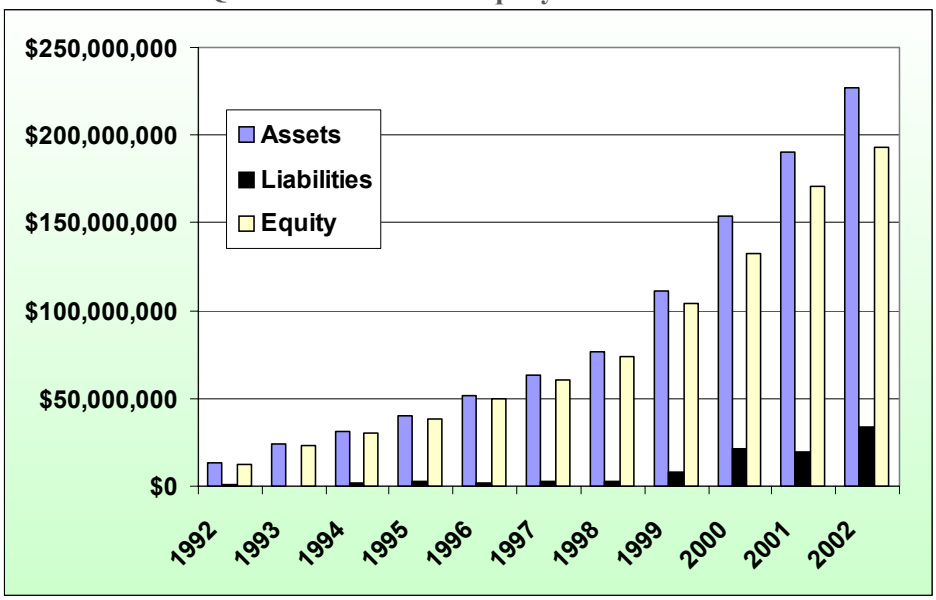
In addition to significant earnings, investment and employment, the commercial fishing industry is second to the oil industry in contributions of resource State taxes, averaging $47 million annually from 1990 to 2000. Cities and boroughs receive half of the State's fisheries taxes.

In 2000, the National Marine Fisheries Service established the Individual Fishing Quota (IFQ) Cost Recovery Program. Halibut and sablefish quota holders are assessed a modest tax to cover the cost of federal management.

Community Development Quota program

The Community Development Quota (CDQ) program began in December of 1992 with the goal of extending the economic opportunities of the productive fisheries in the Bering Sea and Aleutian Islands area to small, rural communities. The CDQ program allocates a portion of the harvest amounts to six CDQ organizations, including pollock, halibut, sablefish, Atka mackerel, Pacific cod, and crab. There are no significant amounts of salmon allocated. Sixty-five communities within a 50 mile radius of the Bering Sea coastline participate in the program.

1992 - 2002 CDQ Assets Liabilities Equity



Since 1992, approximately 9,000 employment opportunities have been created under the CDQ program, with wages totaling more than $60 million. In addition, the revenue stream from the lease of CDQ allocations has permitted the CDQ groups to make substantial fisheries-related investments. The value of CDQ group assets in aggregate increased from $13 million in 1992 to over $227 million in 2002. All six CDQ groups have acquired ownership interests in the offshore pollock-processing sector. In

	Assets	Liabilities	Equity
1992	$13,353,826	$655,989	$12,697,837
1993	$23,682,750	$324,885	$23,357,865
1994	$31,509,301	$1,443,762	$30,065,539
1995	$40,306,850	$2,362,755	$37,944,095
1996	$51,436,987	$1,580,963	$49,856,024
1997	$63,098,538	$2,888,088	$60,210,450
1998	$76,790,817	$2,995,088	$73,795,729
1999	$111,385,274	$7,600,766	$103,784,508
2000	$153,782,320	$21,538,154	$132,244,166
2001	$190,280,972	$19,240,885	$171,040,087
2002	$227,066,645	$34,058,020	$193,008,625

Source: DCED, Div. of Banking, Securities and Corporations, CDQ Program

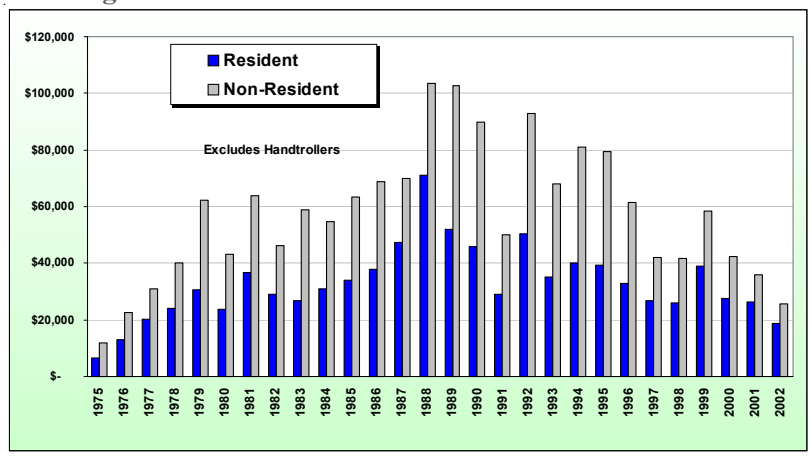
addition, some CDQ groups have invested in onshore processing plants, motherships and catcher processors that operate in the crab, halibut, and groundfish fisheries. These investments have significantly increased the participation of Alaska residents in fisheries dominated by Seattle-based companies. A number of CDQ groups have also promoted investment in local, small-scale fishing operations targeting salmon, herring, halibut, or other species. For example, CDQ groups have channeled significant resources toward local fisheries-related infrastructure development.

Employment and Earnings

In 2002, the estimated number of resident and non-resident people directly participating in fisheries in Alaska and adjacent EEZ waters was 22,900, down from 25,300 in 2001. This includes fishermen, crew and processing workers. Processing employment is provided as full-time equivalent jobs. 2002 personal income of residents engaged in fishing and seafood processing is estimated at $139 million, down from $156 million in 2001.

The Alaska Commercial Fisheries Entry Commission (CFEC) issued 24,257 commercial fishing entry permits to 14,934 permit holders in 2002. The number of permit holders that fished in 2002 was 9,441, of which 73% were Alaska residents. While residents hold 73% of permits, they earn only 35% of the gross earnings. Crew permits were substantially down from 11,747 in 2001. CFEC permits are required for salmon, herring, crab and other fisheries under Alaska management authority.

Earnings Per Fisher — Salmon Fisheries



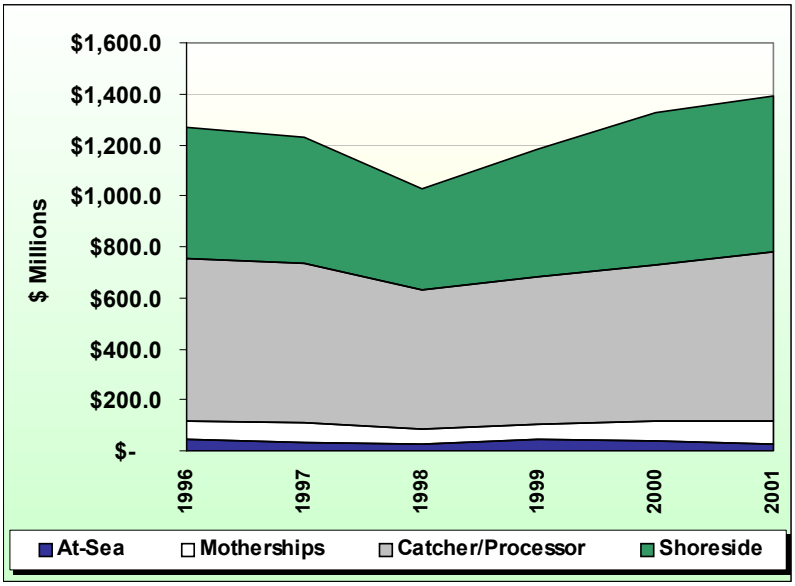
Source: CFEC and ADF&G

There were 1,376 vessels operating in the 2001 groundfish industry, a decrease of 9% from 2000. However, the harvest of catcher vessels and catcher processors actually increased by 11%, to 2.0 million metric tons. The average crew wage aboard a trawl catcher vessel targeting pollock ranged from $169,000 to $239,000. The groundfish industry includes pollock, Pacific cod, sablefish and many other species.

The Alaska Department of Labor and Workforce Development reported the seafood processing sector makes up 71% of the manufacturing sector in Alaska. Of the 7,406 people employed in Alaska's on-shore seafood processing sector, approximately 69.6% (5,200) were non-residents. Alaska residents working in the processing sector earned an average of $28,500 per full-time

equivalent job, for a total of $148 million in wages. Six seafood processors are listed among the top 50 employers in Alaska for 2002.

Alaska Groundfish Processors Gross Product Value



In 2000, there were 105 offshore groundfish processing operations, including floaters, motherships and catcher processors. Approximately half of these operations were covered by CFEC permit requirements. The other half comprises large factory trawlers employing 3,437 full time equivalent crew and processing workers with $261 million in total earnings. Total at-sea processor crew weeks increased from 98,933 weeks to 110,197 weeks (+11%). Gross product values of Alaska groundfish processors increased 5% from 2000 to 2001.

Industry Issues and Outlook

The Alaska seafood industry is constantly adapting to changing marine and market environments. The ability of the industry to alter its operations to balance these dynamic forces will dictate its long-term success, and to a large extent, the health of Alaska's coastal communities.

The salmon industry is struggling under the weight of huge supplies of farmed salmon. Sablefish, halibut and cod, all-important to Alaska through the 20th century, are also beginning to be produced at fish farms. In order to establish the superiority of its wild seafood brand over farm-based competitors, Alaska's seafood suppliers must embrace consumer-based market strategies aimed at differentiating wild, natural products from farmed. Strategies could include point-of-origin labeling, organic and sustainable fisheries seals, and a marketing slogan that captures the unique and healthful attributes of Alaska seafood. To remain competitive, the Alaska seafood industry must continue to lower costs and increase efficiencies while increasing product value and diversifying product options.

Shellfish Aquaculture. Although Alaska does not permit finfish farming, it is legal to raise shellfish in the State. A growing number of aquatic farms in Alaska raise shellfish, including oysters, mussels and clams, and the industry is gearing up to introduce additional species.

Bycatch Reduction. "Bycatch" refers to non-targeted fish species incidentally caught in a particular fishery. Major improvements have been made in bycatch reduction, and it can be anticipated that further gains will be made in those fisheries that continue to have bycatch or selectivity concerns. Innovations in management practices and development of improved gear, coupled with market incentives and regulatory requirements, will drive this process.

Endangered Species. Environmental issues have assumed a prominent role in the groundfish fisheries. Declines in western Alaska Stellar sea lion populations have resulted in the decision by NOAA to list them as an endangered species. Constraints have been applied to traditional fisheries in the region as fishery managers seek to understand the cause of this decline. Similar environmental issues will likely continue to play a key role in fishery management decisions in Alaska.

Full Utilization. Greater utilization of harvested fish and shellfish is an ongoing effort. Fish waste from processing operations has many potential uses, including fuel, fertilizer, medicine, feed, and human food. The industry will continue to find alternative and profitable uses for fish oil and fishmeal.

Market Diversification. Alaska seafood suppliers continue developing new markets in response to the now decade-long recession in the Japanese economy – historically the principal market for Alaska seafood products. Global competition continues to challenge Alaska operators, but promising opportunities exist in the U.S., Europe, and in emerging markets in developing nations.

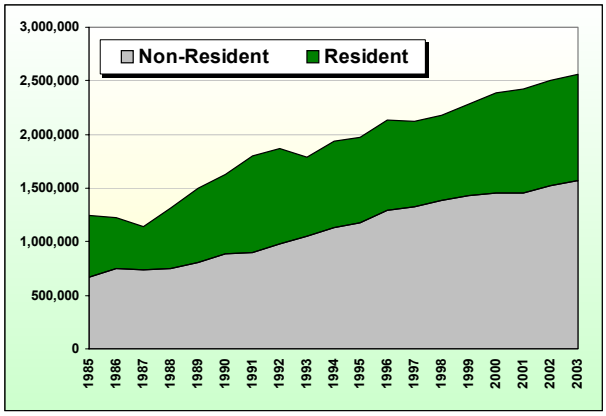
Expanding Individual Fishing Quota (IFQ) Concept. An ongoing issue in fisheries management is the question of expanding individual fishing quotas into other fisheries. Experience shows that management regimes that focus competition away from the "race for fish" and onto improved quality assurance, reduction of costs, and innovative marketing can benefit participants and the general economy in several ways. Most notable are important gains in operational safety, substantial increases in unit resource value, and improvements in bycatch and selectivity. The successes of the halibut and sablefish IFQ programs, the State's Chatham and Clarence Straits blackcod fisheries, Bering Sea pollock cooperatives, and most recently, the Chignik salmon cooperative, have highlighted the possibilities for similar improvements in other fisheries. However, concerns remain with assuring fair initial distribution of the resource among participants, safeguarding the economic well being of coastal communities, and fairly accommodating future new entrants.

Seafood and Federal Food Programs. Seafood is an important food item for this country. However, despite several attempts by Alaska, the U.S. government does not recognize seafood in the same way as livestock and other protein sources for the purposes of federal food programs. Alaska continues to pursue recognition of its seafood resources, on par with livestock and other proteins, by these federal food programs.

Tourism Industry

From October 2002 through September 2003, over 1.56 million visitors came to Alaska, up (2.2%) from 1.53 million the previous year. This represents a 62% increase in visitor arrivals over 1994, with an average annual growth rate of 3.7% over the last decade. The highest growth rate during that period has been in cruise ship travel, with an average annual growth rate of 9.2%. Domestic and international air arrivals have increased annually by 2.3% and 6.4%, respectively. While motorcoach arrivals have nearly doubled in the last decade (8.9% per year), the number of people entering Alaska by personal vehicles is one-third lower than it was 10 years ago.

Total Arrivals For All Travel Modes



Fall/Winter 2002–2003 Visitors

- Alaska had 252,600 visitors during Fall/Winter 2002–2003 (0.8% increase over visitor arrivals in Fall/Winter 2001–2002).
- Visitors made up approximately 34% of the total arrivals. The remaining 66% of arrivals are Alaska resident travel.
- "Business Only" (44%) was the most common purpose for visiting Alaska, followed by "Visiting Friends and Relatives" (25%).

From 2001 visitor profile data, U.S. residents make up 86% of visitors in the summer and 91% in fall and winter. Canadians make up 10% in the summer and 5% in the winter. Throughout the year about 4% of all visitors come from outside the U.S. and Canada. Of domestic arrivals, Washington and California make up nearly half of the visitors. Not surprisingly, 84% of 2002/2003 visitors (1.28 million) came during the summer 2003 season, from May to September.

Summer 2003 Visitors

- Resident and non-resident travel accounted for 1,785,200 arrivals in Alaska.
- Of these, 73% (1,310,100) were non-resident visitors.
- 75% of these visitors came to Alaska for "Vacation/Pleasure."

Economic Contribution

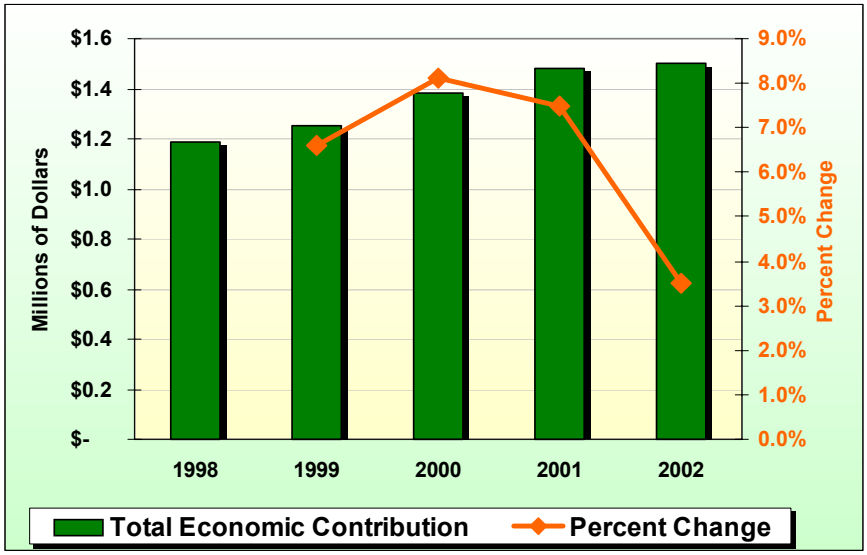
Residents and non-residents spent $2.4 billion on travel and tourism in Alaska in 2002. The economic contribution to Alaska (the dollars retained in Alaska) was $1.5 billion. The total economic contribution includes both the *direct* and *indirect* economic impact of all tourism spending. A new economic model called the Alaska Tourism Satellite Account (ATSA) has been developed to connect travel and tourism sales to all associated industries in Alaska that produce travel-related goods and services. This approach allows us to trace economic contributions industry by industry.

Travel and tourism sales include spending by resident and non-resident travelers, plus other government and private expenditures for marketing and capital improvements. This approach provides all spending in the Alaska travel and tourism economy. It is important to understand that not everything purchased for Alaska travel and tourism is produced in the state. Therefore, the economic contribution to Alaska is somewhat less than total spending and is net of imports. The **Core Travel and Tourism Industry** are businesses that deal directly with end users. The core travel and tourism industry generated $851 million in value added in 2002, or 3.0% of Gross State Product. Value added is the sum of wages and salaries, corporate profits, and indirect business taxes.

2002 Travel and Tourism Sales ($ Million)	
Resident In-state	$412.8
Internal Business Travel	$321.5
Government Spending	$97.2
Investment	$570.5
Domestic Out-of-State	$862.4
International	$108.4
Total	**$2,372.8**

In terms of employment, the significance of travel and tourism is much greater. The core tourism industry represented almost 26,000 jobs in 2002. The ATSA measurement system ranks travel and tourism as the fourth largest employer in Alaska – accounting for 9.1% of the workforce. This approach measures tourism on the same basis as other industries.

Tourism is a Growth Sector in the Alaska Economy



Industry Ranking of Employment – Top 15 in 2002

Rank	NAICS Code	Industry	Employment	Percent
1		Local Government	36,804	12.8%
2	44-45	Retail trade	33,904	11.8%
3	62	Health care and social assistance	27,327	9.5%
4		**Tourism**	**25,996**	**9.1%**
5	72	Accommodation and foodservices	24,940	8.7%
6		State Government	21,764	7.6%
7	48-49	Transportation and warehousing	19,086	6.6%
8		Federal Government	16,761	5.8%
9	23	Construction	15,924	5.5%
10	31-33	Manufacturing	11,152	3.9%
11	54	Professional, scientific, and technical services	10,732	3.7%
12	56	Admin. & Support, Waste Management & Remediation	10,615	3.7%
13	81	Other Services, Except Public Administration	10,400	3.6%
14	21	Mining	10,264	3.6%
15	52	Finance and Insurance	7,760	2.7%
		Total	**287,231**	**100.0%**

The Core Tourism Industry

Tourism is not an "industry" in the classical sense, but rather the parts of a variety of economic sectors. The Alaska Tourism Satellite Account (ATSA) model identifies and isolates the parts that directly serve travelers and tourists (the end users). This aggregate of parts is called the "Core Travel and Tourism Industry." The table that follows identifies the composition of the Core Tourism Industry in 2002. Based on the amount of value added, Hotel and Lodging Places has the greatest impact, with 26% of the total value added. Air Transportation and Amusement and Recreation Services follow, with value added of $184 million and $167 million respectively. Note that while Amusement and Recreation Services contribute almost 20% of the core value added, they are only about 11% of sales. The ranking and relative contribution of certain industries has a lot to do with the economic structure of certain sectors. The reason why the value added in eating and drinking places and hotels is relatively high is because a most of their total sales are captured by the value-added categories of wages, salaries, profits and indirect business taxes. In contrast, total sales for the retail sector are largely made up of imports and its relative contribution to value added is less. While shopping is an important part of visitor expenditure patterns, the relative economic impact is higher for other types of spending.

Tourism's Core Industry generated $851 million in value added production in 2002. This ranks tourism as the 7th largest private sector industry in the state in terms of value added. Tourism has helped the economy diversify, thereby lowering Alaska's dependence on the oil and gas industry.

Composition of Core Travel & Tourism Gross State Product, 2002

Rank	Industry	$ Value	% Distribution
1	Hotels and Lodging Places	221,320,896	26.0%
2	Air Transportation	184,212,000	21.7%
3	Amusement and Recreation Services	167,174,144	19.7%
4	Eating & Drinking	103,618,200	12.2%
5	Transportation Services	41,927,660	4.9%
6	Water Transportation	29,876,520	3.5%
7	Automotive Dealers & Service Stations	27,139,044	3.2%
8	General Merchandise Stores	25,156,836	3.0%
9	Furniture & Home Furnishings Stores	12,177,748	1.4%
10	Apparel & Accessory Stores	11,203,006	1.3%
11	Automobile Repair and Services	6,874,263	0.8%
12	Automobile Rental and Leasing	6,396,673	0.8%
13	Miscellaneous Retail	5,487,541	0.6%
14	Food Stores	4,708,214	0.6%
15	Membership Sports and Recreation Clubs	1,682,704	0.2%
	All Other	1,802,992	0.2%
	Total	**850,758,440**	**100.0%**

Industry Issues and Outlook

Virtually all of the growth this past year in visitor arrivals is attributable to the cruise sector that experienced a growth rate of 6.9%. The only other mode of travel that increased was international air, with domestic air arrivals remaining relatively steady. Highway and ferry arrival numbers continued to decline.

Some net additional growth in cruise traffic is expected over the next few years as cruise lines increase their capacity in the market. Cruise berth capacity for the industry is projected to grow at an annual rate of 5% or more for the next two to three years. The increase in tourism investment in 2001 and 2002 is contrary to national trends. Nationwide, capital investments are declining due to soft travel demand over the past 18 months. During 2002, Alaska has increased investment in its travel infrastructure, specifically its airport infrastructure. With over 60% of out-of-state visitors arriving and leaving Alaska by air, and many more using air to get to cruises, this may prove to be a smart investment as hopes for the airline industry increase.

Managing the Alaska Tourism Experience. As the volume of visitors grows, maintaining the quality of the "Alaska experience" at prime attractions is a key issue facing the visitor industry. The industry recognizes this concern and, through long-term planning efforts, is working to improve the visitor infrastructure and develop new attractions.

Minerals Industry

The table below shows the estimated value of the mineral industry in Alaska from 1981 to 2003, as divided between exploration, development, and the value of production. Exploration expenditures during 2003 were $20.9 million, or 21% less than in 2002. The decrease in exploration expenditures is due to the late season availability of venture capital, the weakness of the Canadian dollar against the U.S. dollar, and new Canadian tax incentives. Large projects dominate the spending on exploration, including the Pebble mine in southwest Alaska, Kinross Gold near Fairbanks, and the platinum-nickle-copper project in Union Bay, in southeast Alaska. A 53% decline in development expenditures in 2003 is a continuation of a trend since 1999.

Total Value of the Mineral Industry in Alaska, by Year, Millions of Dollars

	Exploration (expenditure)	Development (expenditure)	Production (value)	Total
1981	76.3	24.7	188.6	289.6
1982	45.6	41.6	196.4	283.7
1983	34.1	27.9	212.4	274.4
1984	22.3	53.4	199.4	275.1
1985	9.2	34.1	226.6	269.9
1986	8.9	24.3	198.5	231.7
1987	15.7	100.3	202.4	318.4
1988	45.5	275.0	232.2	552.6
1989	47.8	134.3	277.0	459.0
1990	63.3	14.3	533.0	610.6
1991	39.9	25.6	546.5	612.0
1992	30.2	29.6	560.8	620.6
1993	30.3	27.7	448.7	506.7
1994	31.1	45.0	507.5	583.6
1995	34.3	148.6	537.2	720.1
1996	44.7	394.0	590.4	1,029.2
1997	57.8	168.4	936.2	1,162.4
1998	57.3	55.4	921.2	1,033.9
1999	52.3	33.8	1,032.9	1,119.1
2000	34.9	141.7	1,106.4	1,283.0
2001	23.4	81.2	917.3	1,021.9
2002	26.5	34.1	1,010.0	1,070.6
2003	20.9	15.9	980.3	1,017.1
TOTAL	**$831.4**	**$1,915.0**	**$11,581.6**	**$14,328.1**

Source: Alaska's mineral industry reports published annually by DGGS.

Most of development in 2003 occurred at Greens Creek and Kensington mines. Other development is taking place at the Pogo, Rock Creek, Donlin Creek and Nolan Creek projects. During 2003, the Alaska's minerals industry produced over $1.0 billion in commodities.

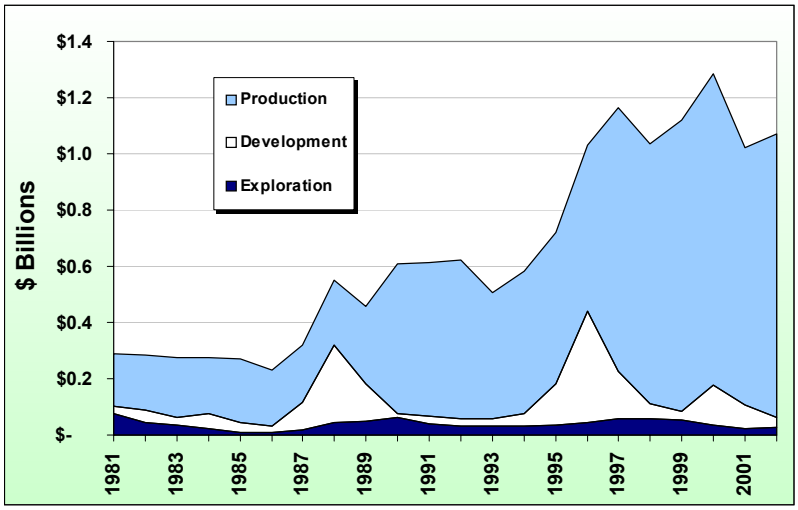
Employment

Employment in the mineral industry for 2003 was 2,496 full-time equivalent jobs. This was a slight decrease of 11% from 2002. The decline was in all sectors – exploration, development and production.

State and Local Government Revenues

In addition to significant earnings, investment and employment in Alaska, the mineral industry contributed $5.48 million in taxes to the State government in 2002 (most recent year on record), an amount significantly lower than the $6.99 million in 2001. The biggest drop was in mining license fees. The largest negative impact was a $30 million loss at the Red Dog mine, which also impacted production values. However, zinc prices have since rebounded.

Alaska Mineral Industry - Expenditure and Production Value



Source: Alaska Mineral Industry Report 57

An additional $15.2 million in taxes were paid to municipalities in 2002, which is a 9% decrease from 2001. Mining companies were the largest taxpayers in the City & Borough of Juneau, Fairbanks North Star, Denali, and Northwest Arctic boroughs.

Exploration

Seventy percent of exploration spending was in southwestern and eastern Alaska. During 2002, there were 1,532 new State mining claims (158,320 acres), 57 new State prospecting claims (9,120 acres), and 261 new federal claims (5,220 acres) staked. The billion-ton Pebble Copper project west of Iliamna is the subject of renewed interest after detailed geophysical surveys indicate that the known copper-gold mineralization may be the tip of the iceberg. The copper resources are estimated at 6.6 billion pounds and gold at 10.9 million ounces. New copper-gold deposits were found in 2002 – including high-grade ore.

Unprecedented increases in platinum, palladium and tantalum prices have spurred smaller exploration projects in Union Bay and Duke Island in southeast Alaska, the Kougarok prospect on the Seward Peninsula, the road-accessible Divided and Full Auto projects near Nome, and the Tolstoi/Boob Creek project northwest of McGrath. Near Dillingham, the Shulin Lake property near Talkeetna is thought to be the first diamond lode discovery in Alaska.

Development

Development activity is occurring at Greens Creek silver-zinc-gold mine and the Kensington gold project in southeastern Alaska, the Donlin Creek gold project on the middle Kuskokwim, the Pogo gold project near Delta Junction, the Rock Creek project near Nome, and the Nolan Creek placer gold in northern Alaska. A new road has been constructed at the Usibelli coal mine to develop Two Bull Ridge. No development occurred at the Red Dog zinc-lead mine in northwestern Alaska.

Japanese and Canadian companies are partners in the Pogo gold project near Delta Junction. Both federal and State Environmental Impact Statements have been approved. Tech Pogo's investment of $250 million is expected to create 700 construction jobs and 360 full time mining jobs for a decade. Annual payroll is estimated to be $25 million, with average salaries of about $70,000 per year.

Minerals Production

In 2003, gold production occurred at Fort Knox, Greens Creek, and at over fifty placer mines. All benefited from the rise in average gold prices from $310 an ounce in 2002 to over $364 per ounce in 2003. About 528,044 ounces of gold were produced, including 23,000 ounces from placer mines. At the Red Dog mine, an increase in zinc prices of only $0.03 per pound reversed prior year losses of $28 million to $59 million in profit for 2003. Usibelli Coal is in its 60th year of operation and produced 1,085,000 tons, down 6% from 2003. Coal exports to Korea have resumed with a 2-year contract at 400,000 tons per year. The company is mining the Two Bull Ridge pit and reclaiming the Poker Flats pit.

Gold and Silver. Gold production decreased 6% in 2003, but the value was up by a much greater amount (10%). In contrast, silver production increased 4% in 2003, and its production value was also up by 10%.

Zinc. Zinc was the most valuable metal produced in Alaska in 2003, with a gross value of $486.9 million, representing 58% of the total metal value. Zinc production was slightly down (less than 1%) and total value produced was down by 3%. Nonetheless, the industry returned to profitability with higher zinc prices of $0.83 per pound.

Industrial Minerals. In 2003, production value for sand and gravel was substantially down from $120.7 million in 2002 to $100 million in 2003. However, 2002 was an outstanding year. 2003 production values increased by 20% over 2001. Decreases in rock production were offset by increases in sand and gravel.

Coal. In 2003, Usibelli coal production fell by 6% in volume, but increased 1.5% in value. The year 2002 was particularly difficult with the expiration of export contracts with Korean firms. Coal exports to Korea have resumed with a 2-year contract at 400,000 tons per year.

Industry Issues and Outlook

During 2004, the mining industry will enjoy rising metal prices. Construction of the Pogo mine near Delta Junction is expected to occur this year. This $250 million development is stimulating new exploration in Interior Alaska. Six lode mine projects are in the development phase and should go into production in 2005.

Claim staking has increased by two-fold on State lands. Much of this activity is around the Pogo mine in the Eastern Interior, in the Alaska Range near Paxson, and surrounding the very promising Pebble Copper property in southwestern Alaska.

Estimated mineral production and Value in Alaska, 1999–2003[a]

	2000	2001	2002	2003	2000	2001	2002	2003
Metals								
Gold (ounces)	551,982[c]	550,644	562,094	528,044	$154,058,000	$149,246,000	$174,283,000	$191,986,000
Silver (ounces)	18,226,615	16,798,000	17,858,183	18,601,089	90,404,000	73,408,000	82,326,000	90,773,000
Platimum (ounces)								
Copper (tons)	1,400	1,400	1,600	1,500	2,296,000	1,988,000	2,272,000	2,430,000
Lead (tons)	123,224	127,385	144,500	165,686	51,754,000	56,049,000	61,514,000	70,094,000
Zinc (tons)	669,112	634,883	718,100	715,429	682,494,000	507,907,000	502,674,000	486,916,000
Subtotal					**$981,006,000**	**$786,610,000**	**$823,069,000**	**$842,199,000**
Industrial Minerals								
Jade and soapstone (tons)	2	2	2	2	$25,000	$25,000	$25,000	$25,000
Sand and gravel (million tons)	10.6	10.4	11.4	11.0	49,855,000	55,221,000	120,700,000	80,000,000
Rock (million tons)	5.2	3.1	3.2	3.0	36,588,000	27,176,000	31,440,000	19,975,000
Subtotal					**$86,468,000**	**$82,442,000**	**$152,165,000**	**$100,000,000**
Energy Minerals								
Coal (tons)	1,473,000	1,537,000	1,158,000	1,085,000	$38,768,000	$48,108,000	$37,400,000	$37,975,000
Peat (cubic yards)	35,600	36,000	35,000	30,000	178,000	180,000	175,000	175,000
Subtotal					**$38,946,000**	**$48,288,000**	**$37,575,000**	**$38,150,000**
TOTAL					**$1,106,420,000**	**$917,340,000**	**$1,012,809,000**	**$980,349,000**

a. Production data from DGGS questionnaires, phone interviews with mine and quarry operators, Alaska Department of Transportation and Public Facilities, and federal land management agencies.
b. Values for selected metal production based on average prices for each year; for 2001—gold ($271.04/ounce unless other value provided by operator); silver ($4.37/ounce); copper ($0.71/lb); zinc ($0.40/lb); lead ($0.22/lb). All other values provided by mine operators. Values rounded to nearest $1,000.
c. Hardrock gold 527,803 ounces, placer 22,841 ounces.

Taiwan's national power generation and steel making companies are investigating the potential development of southcentral Alaska's coal reserves. Interest is centering around coal prospects near Beluga Point, west of Anchorage. New technology allows processing relatively low-quality Beluga coal into premium fuels. Governor Murkowski's trade mission to Asia last fall has prompted the critical preliminary step towards new markets for Alaska's coal.

Alaska's rich mineral deposits make it competitive in global markets and one of the state's growth industries.

Wood Products Industry

Recent years have brought the Alaska forest products industry to its lowest point in half a century. Three major trends have had negative effects:

- The long-term stagnation of Japan's economy, Alaska's primary export market
- A substantial decrease in allowable harvest levels in the Tongass National Forest
- A decrease in harvest on privately-held Native Corporation lands

During these difficult times, primary processing of Alaska forest products is still decreasing. Approximately 150 commercial sawmills and secondary manufacturers operate across the state. These range from 5 sawmills that produce from 1 million board feet (mmbf) to 30 mmbf annually, to mobile dimensional mills that saw personal-use wood from national and State forests for individual clients. Modest growth has occurred in small firms located in Southcentral or Interior Alaska, sawmill operators have retooled, and many are using state-of-the-art technology. They are selling to local markets in Alaska and are primarily producing value-added dimension lumber and house logs. Other products include large export cants and sawlog slabs, railway ties, shakes and shingles, tone woods for musical instruments, and a host of specialty millwork and craft products.

Harvest

Alaska's public lands timber harvest in 2002 totaled approximately 70 mmbf (million board feet). Coupled with an approximate 260 mmbf harvest of private Native Corporation lands, that brings the total harvest to roughly 330 mmbf.

Alaska Public Lands Timber Sold and Harvest - 1998 to 2003

Year	State		Federal		Total Public	
	Sold	Harvested	Sold	Harvested	Sold	Harvested
1998	42,000	12,600	19,600	121,300	**61,600**	**133,900**
1999	21,100	12,800	133,600	146,100	**154,700**	**158,900**
2000	9,000	63,500	92,400	149,400	**101,400**	**212,900**
2001	9,500	55,300	52,800	48,100	**62,300**	**103,400**
2002	13,750	35,100	23,700	32,100	**37,450**	**67,200**
2003	18,000	14,900	56,095	48,122	**74,095**	**63,022**

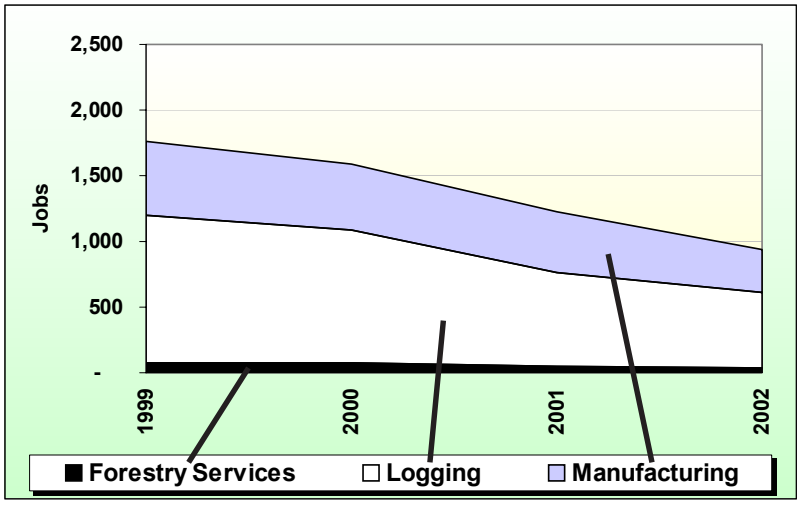
Figures are in thousand board feet (mbf) scribner scale.

Sources: Alaska Division of Forestry and US Forest Service, Alaska Region

Employment and Earnings

In the calendar year 2002, the wood products industry (including forestry services) employed an annual average of 983 workers, peaking at about 1,200 jobs in August — the height of the logging season. Employment is down 23% from the previous year, following a downward trend since 1999. Wood products manufacturing employed approximately 321, or one-third of that total, and offered more seasonably-stable employment. Industry wide earnings totaled $37.9 million in 2002, and average monthly individual earnings were $3,490. Logging accounted for $26.5 million of earnings, and manufacturing, $9.9 million.

Wood Products Employment

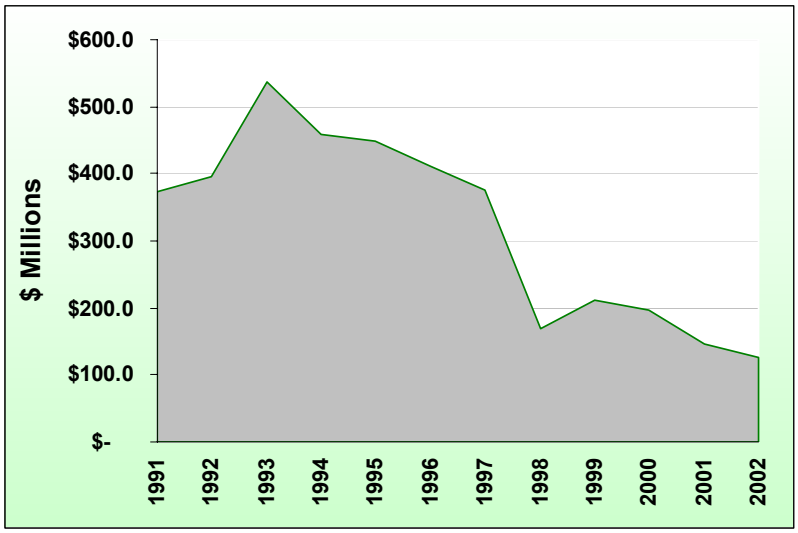


Source: ADOL&WFD

Wood Product Exports

In the calendar year 2002, the total value of wood products exported from Alaska was $146.2 million, including $136 million in softwood logs, $9.5 million in chips, and $700,000 in lumber. The total value decreased 26% from the previous year's total of $196.6 million. Japan remains the dominant export market, accounting for 58% of total wood product exports in 2001. However, because of the long-term stagnation of Japan's economy, Alaska exporters have had to look to other markets. Traditionally, Japan has purchased nearly 80% of Alaska's total wood products exports. In 2001, Korea and Canada purchased approximately 20% and 15% respectively. China (4%) and Taiwan (2%) were the other two significant export markets.

Alaska Timber Export Value



Exports of Alaska Wood Products, 1991-2002												
Softwood Logs	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Volume (mmbf)	528.8	532.0	563.0	525.4	561.5	530.2	541.7	325.4	428.0	436.2	320.6	287.0
Value (millions $)	$294	$330	$454	$389	$390	$374	$348	$154	$195	$186	$136	$120
Unit Value ($/mmbf)	$556	$620	$806	$739	$695	$706	$642	$474	$456	$426	$424	$410
Lumber and Cants												
Volume (mmbf)	170.3	136.6	151.9	111.8	50.4	26.9	32.8	9.0	14.7	3.6	3.3	0.1
Value (millions $)	$70	$66	$77	$63	$39	$19	$20	$4	$11	$3	$1	$0.1
Unit Value ($/mmbf))	$412	$481	$507	$561	$775	$715	$599	$460	$736	$902	$208	$630
Woodchips												
Volume (1000 short tons)	101.4	15.5	56.3	73.5	146.3	199.9	105.7	145.8	131.7	178.5	154.9	98,535.0
Value (millions $)	$8	$0	$6	$8	$20	$17	$8	$11	$6	$7	$10	$7
Unit Value ($/short ton)	$78	$22	$110	$108	$137	$84	$72	$74	$42	$41	$61	$69
Total Value	**$372**	**$396**	**$537**	**$459**	**$449**	**$410**	**$375**	**$169**	**$211**	**$197**	**$146**	**$127**

Log and lumber volumes are reported as millions of board feet (mmbf) and chip volumes are short tons, on a dry weight basis. Values are free along ship (FAS) in millions of dollars. Source: U.S. Department of Commerce

Industry Issues and Outlook

Overall, the Alaska wood products industry is struggling to find its feet after a series of setbacks and fundamental changes. In Southeast Alaska, the cancellation of long-term contracts between the U.S. Forest Service and two pulp mills in the 1990s, coupled with a new management plan, sharply reduced annual harvests. The Alaska Division of Forestry refocused its timber sale program to provide raw material for Alaska mills and stepped up its timber sales in Southeast Alaska in the mid to late 1990s. Most of the Native Corporations in Southeast and Southcentral Alaska have exhausted their timber supply or chosen not sell round logs into depressed markets. Sealaska Corporation, Alaska's largest private timberland owner with nearly 3 billion feet of standing timber, and Afognak Native Corporation, are the two most active private timberland owners. Japan's long term economic stagnation has depressed prices and shrunk the market niche for Alaska's high-quality and high-priced coastal old growth timber.

On the Kenai Peninsula, private and public landowners have greatly increased the harvest of timber to deal with the devastating spruce bark beetle infestation. Public and private landowners in the area are striving to reduce fire loads, create defensible space for communities, and salvage resource value to invest in replanting. While this has accelerated local wood product activity, the overwhelming majority of these trees have been chipped and exported. Little of the harvest has been suitable for value-added products. The only area in Alaska with growing employment in the wood products industry is in the Tanana Valley of the Interior, where mills are primarily producing lumber and custom log cabins for local markets.

Positive developments are taking place. The Alaska Wood Technology Center in Ketchikan is currently testing the strength characteristics of Alaska tree species in order to establish Alaska-specific lumber grades. The new grades should increase the value of Alaska lumber and standing timber. A group of investors is trying to restart the veneer mill in Ketchikan. If functional, the

mill would use lower grade hemlock and spruce. While the Tongass Land Use Management Plan (TLMP) reduced annual allowable harvest levels to 150 million board feet (mmbf), the Forest Service is replacing more expensive uncut timber sales with more economical sales with up to 10-year terms. The State of Alaska is advocating for a new 1.7 million acre State Forest from the existing Tongass National Forest. This is equivalent to the commercial forestland base that is available for harvest under the 1997 Tongass Land Management Plan.

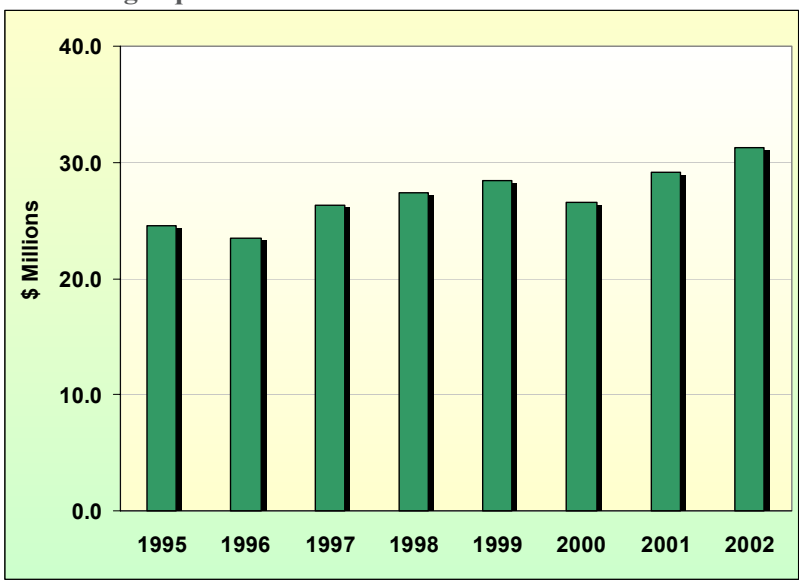
Japan Export Market. There are promising niche markets in Japan for Alaskan softwood lumber. The unique characteristics of Alaskan softwood species are well suited to the demands for Japanese post and beam products. Traditional Japanese homes typically have a *tatami* room. *Tatami* rooms use a large volume of appearance grade wood in exposed applications such as beams, *shoji* screens, and moldings. While there are fewer *tatami* rooms being built in Japanese homes today, there is still a good demand for high quality yellow and red cedar, as well as Sitka spruce and white spruce, for *shoji* components. In addition to the price premiums obtained for *shoji* grade lumber, Sitka spruce and Alaska yellow cedar continue to enjoy a good reputation in Japan.

Housing Quality. The Housing Quality Assurance Act of 2000 requires that all builders provide a 10-year warranty on their homes, including the structural components used to frame-in the house. This requirement has had a significant impact on the species of lumber required for structural components that are used in ground contact applications. A second factor influencing residential construction is "sick house syndrome," or the off-gassing of volatile compounds from carpeting, paint, and vinyl coverings and adhesives. A growing number of builders are decreasing their use of engineered wood products and pressure-treated wood. Alaskan sawmills have a unique opportunity to increase their sales of Alaska yellow cedar lumber in both the post and beam as well as the 2x4 segments in the home building industry.

Agriculture Industry

Due to Alaska's northern location and short growing season, agriculture plays a relatively small role in the economy. There has been a steady upward trend in farm cash receipts since 1996; they were $31.3 million in 2002. Farmed land accounts for only a fraction of one percent of the state's area. The Alaska Agricultural Statistics Service lists 590 farms in Alaska, with approximately 920,000 acres in farmland, much of it pasture.

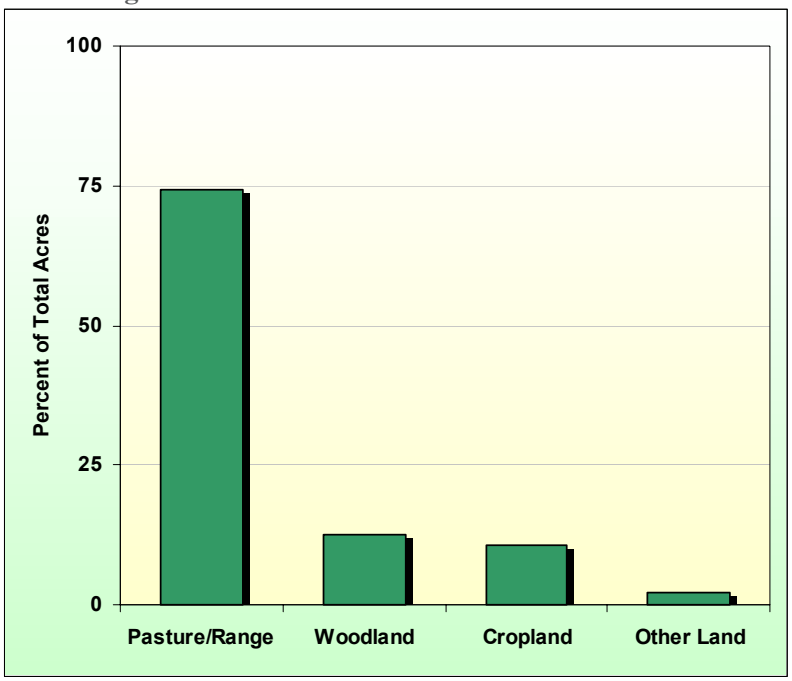
Farm Cash Receipts, All Commodities Excluding Aquaculture



Source: Alaska Agriculture Statistics Service

While agriculture is practiced throughout the state, it is typically on a small scale and for local consumption. Commercial agriculture occurs mostly in Southcentral Alaska in the Matanuska-Susitna Valley, the Tanana Valley (including Fairbanks and Delta), and to a lesser extent in the Copper River Valley, Kenai Peninsula, Kodiak Island and Aleutian Islands.

Alaska Agricultural Land Use 1997



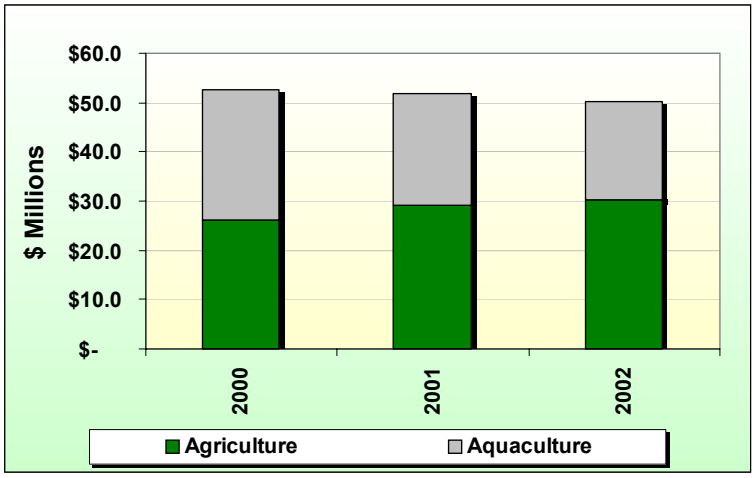
The Tanana Valley, from Fairbanks to Delta Junction, produces much of the state's barley and hogs, as well as hay, oats, potatoes, milk, beef, greenhouse plants and vegetables. The Matanuska-Susitna Valley, just north of Anchorage, produces much of

Alaska's vegetables as well as milk, beef, potatoes, oats, hay, and greenhouse plants and vegetables. Beef cattle are found on Kodiak Island and on the Aleutian Islands, but beef production, both volume and value, is greater in the Tanana and Matanuska-Susitna Valleys. The Seward Peninsula region around Nome hosts a number of domesticated reindeer herds. Other areas where commercial crop agriculture is practiced include parts of Kodiak Island, the western part of the Kenai Peninsula, and the Copper River Valley between Kenny Lake and Glennallen.

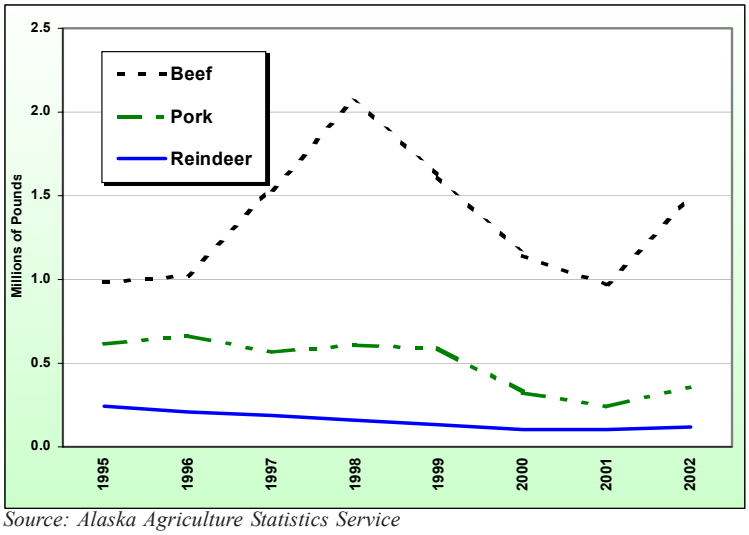
Farm Production Value

The value of farm production in 2002 was $30.3 million, excluding aquaculture production. Livestock production, including beef cattle, calves, sheep, lambs, pigs, hogs, wool, poultry, egg production and exotic species totaled $24.3 million. Dairy production was valued at $3.4 million, vegetables at $4.3 million, feed crops at $3.1 million, and nursery/greenhouse products at $14.9 million. The largest gains were in meat production (excluding reindeer) and dairy, up 56% and 24% respectively. The largest losses were in feed crops (-19%) and vegetables (-8%).

Alaska Agricultural and Aquaculture Value 2000 - 2002

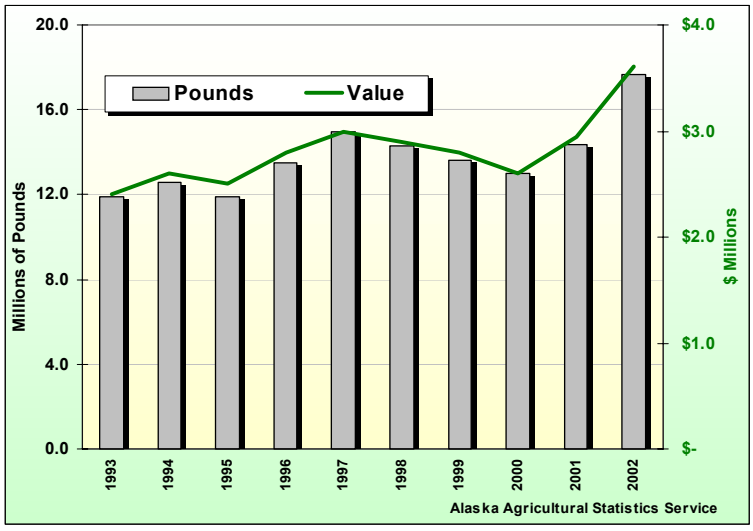


Alaska Livestock Production



Source: Alaska Agriculture Statistics Service

Alaska Milk Production



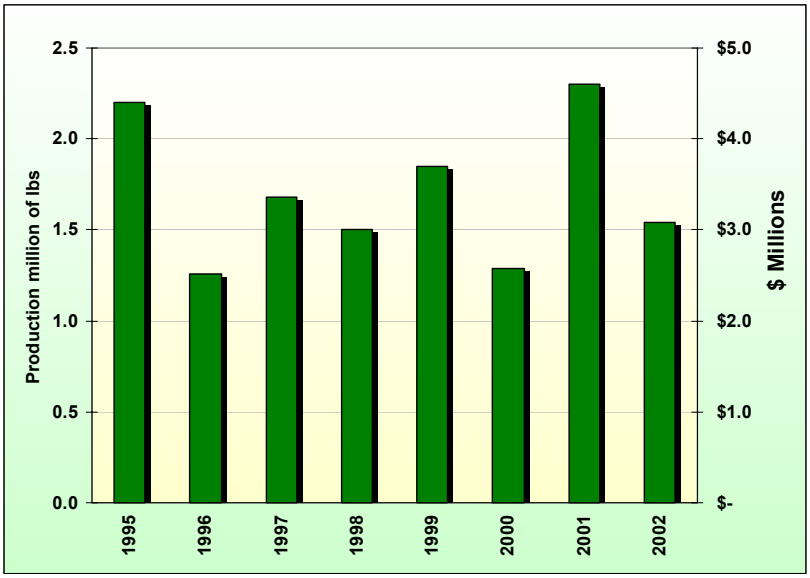
Farm Employment

In addition to farmers, total agriculture-related employment was 463 in 2002. Agricultural support accounted for 8 jobs, crop production, 161 jobs, and animal production, 260 jobs.

Livestock and Crops

Alaska livestock in 2003 included 11,500 cattle and calves, 1,200 hogs, 1,100 sheep, 15,000 reindeer, horses, goats and other exotic species (elk, alpacas, buffalo and llamas). In 2002, major crops in Alaska included barley, oats, potatoes, hay, carrots, lettuce and greenhouse products (bedding plants, nursery stock, tomatoes, cucumbers).

Alaska Potato Harvest



Source: Alaska Agriculture Statistics Service

Industry Issues and Outlook

Rural Agriculture. Domestic and small-scale gardening will continue to be practiced throughout rural Alaska. Many rural locations have excellent growing soils and long growing days during the summer. However, despite State-supported efforts dating from the early 1980s at Aniak, Selawik and elsewhere, rural commercial farming efforts have lacked sustained management and marketing strategies. Organizations like the Cooperative Extension Service and the Tanana Chiefs Conference remain active in supporting rural agriculture, and the potential exists for cooperative ventures at the village level to supplant costly and often poor-quality imported produce.

Limited Markets. Because of Alaska's small population and the great distance to external markets, farmers have limited markets. Hay production continues to be the most stable and reliable market for Alaska farmers. Good quality hay finds ready buyers among horse and livestock owners. Potatoes, and to a lesser extent carrots, have been exported to China and Taiwan, but these ventures have been small and no firm export markets have been established. Exports to Canada and the continental United States have also been on a very small scale.

The continued ability to sell in quantity to urban markets in Alaska will depend in large measure on the willingness of retail chains to continue buying Alaska products. Farmers' markets in Anchorage, Eagle River, the Matanuska-Susitna Valley, Kenai Peninsula and Fairbanks provide significant sales opportunities. Some farmers offer "u-pick" sales on their farms. New sales

opportunities may exist through niche markets with hotels, restaurants and cruise ships. The Alaska Grown® program, a promotional effort of the State Department of Natural Resources' Division of Agriculture and local farmers, has proven to be a useful tool in maintaining market share.

Urbanization. The conversion of arable land to residential, commercial and other developed uses has eroded much of the traditional agriculture land base in the Matanuska-Susitna Valley, Kenai Peninsula, Kodiak Island and Fairbanks North Star Borough. Actual rates of conversion are unknown, but flat accessible land suitable to agriculture typically competes with residential and commercial development. None of the borough governments for these areas provide for agricultural zoning. Residential construction in the Matanuska-Susitna Valley was at all-time high in 2003.

Greenhouse Production. According to the 1997 Alaska Census of Agriculture by the U.S. Department of Agriculture, the number of square feet under greenhouse glass increased by over 20% from 1992 to 1997. Between 1992 and 2002, the value of greenhouse sales nearly doubled, from $6.6 million to over $15.3 million – a 130% increase. This includes all nursery crops and greenhouse crops such as tomatoes, cucumbers and peppers.

New State Land Sales. During 2003, the DNR Division of Agriculture held an auction for sixteen parcels ranging from 38 to 560 acres near Eielson Air Force Base, Salcha, Harding Lake, Delta, Tanana Loop, Clearwater and Gerstle River areas. The Salcha and Harding Lake parcels (southeast of Fairbanks) drew no bids and remain available as over-the-counter sales.

Some demand may exist for additional agricultural land as farm tracts in the Delta area are fully occupied and as the Farm Service Agency reports regular inquiries about the availability of farmland.

Export Markets

Exports

The table at right displays Alaska's exports from 1999 to 2003. Exports from Alaska totaled $2.7 billion in 2003, or 7% more than 2002. Historically, fish products have made up the largest component of exports. Seafood is valued at $1.4 billion in 2003, up 5% from 2002. Mineral exports for 2003 are valued at $410 million, or 8% higher than 2002. Other export commodities such as fertilizer, wood products, oil and gas are up 11% from 2002.

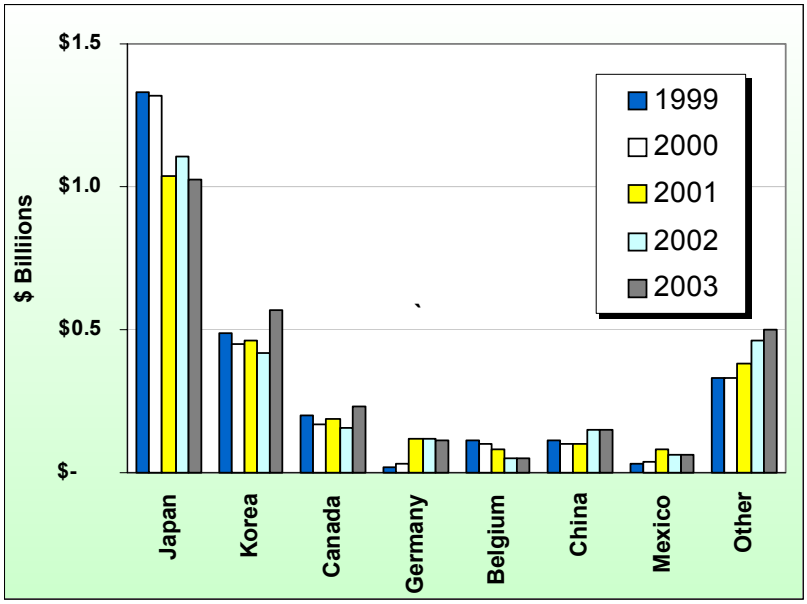
Total Value of Alaska Exports, by Destination, $ Billions

	1999	2000	2001	2002	2003
Japan	$1.33	$1.32	$1.04	$1.11	$1.03
Korea	$0.49	$0.45	$0.46	$0.42	$0.57
Canada	$0.20	$0.17	$0.19	$0.16	$0.23
Germany	$0.02	$0.03	$0.12	$0.12	$0.11
Belgium	$0.11	$0.10	$0.08	$0.05	$0.05
China	$0.11	$0.10	$0.10	$0.15	$0.15
Mexico	$0.03	$0.04	$0.08	$0.06	$0.06
Other	$0.33	$0.33	$0.38	$0.46	$0.50
Total	$2.62	$2.54	$2.45	$2.52	$2.70

Source: DCED, Division Trade and Development

Japan remains Alaska's largest customer, importing $1.03 billion of Alaska products in 2003. Exports to Japan are down 7% from the previous year, reflecting Japan's continuing deflation. Korea is Alaska's second largest export partner, importing $570 million of products. Compared to 2002, Alaska-Korea trade is substantially up, by 36%. The greatest growth in trade is with Canada, up by 49% from 2002. China, Germany, Belgium, and Mexico are other major trading partners in 2003.

Total Value of Alaska Exports, By Destination, 1999 - 2003



Source: DCED, Division Trade and Development

Japan – In 1965, Alaska was the first State in the U.S. to open a trade office in Tokyo. This long-standing relationship encourages strong economic ties between Alaska and Japan. Japan continues to be a dominant player for Alaska trade and is by far the leading market for exports. Japan imported $1.03 billion of Alaska products in 2003. Governor Murkowski led a trade delegation to Japan in

October 2003 and focused on seafood, oil and gas, mining, tourism and transportation. Seafood exports were the largest component of Alaska exports to Japan, but have decreased since 2002. Fish roe exports to Japan were down by $52 million, or 26%. Alaska's smaller market share is consistent with Japan's decline in seafood imports from all sources.

Crude oil and natural gas products represent the next-greatest commodity exported to Japan and were up 20% in 2003. The increase is primarily due to a renegotiated contract for the liquefied natural gas facility on the Kenai Peninsula.

Korea – In 1985, Alaska was the first State in the U.S. to open a trade office in Korea. In 1997, Korea became Alaska's second-largest export market, purchasing 21% of total exports. Exports to Korea were valued at $567 million in 2003, a 36% increase over 2002 exports.

Korea imports all major Alaska products, but seafood dominates the trade. Seafood exports increased by 38% in 2003, primarily due to salmon roe, which was up 109%. Imports of Alaska fertilizer made from natural gas increased by 33%. Likewise, Alaska zinc imports almost doubled. In terms of coal, the East Korean Power Company has entered into a 2-year contract with Usibelli Coal for 400,000 tons per year.

Canada – A common border and a long history of cooperation contribute to making Canada Alaska's third-largest trading partner. Nine percent of exports went to Canada in 2003, totaling $231 million. During 2003, trade with Canada grew by 49%.

Canada imports and processes a large amount of Alaska's ore. Lead and zinc exports valued at $111 million represent half of the trade with Canada. Most of mineral exports are extracted from the Red Dog mine, located northwest of Kotzebue. Seafood exports were also up over 30%, with a value of $63 million.

China – China is Alaska's fourth-largest export market, with a value of $151 million in 2003. Alaska can offer what China needs in the long-term: energy, food and timber. Although China is the world's largest seafood producer, it is a net importer. Alaska seafood exports to China totaled $98 million in 2003, or 44% above 2002 levels. Also, zinc and lead sales increased to $20 million.

Germany – Beginning in 2001, Germany more than doubled their imports of Alaska products. Today, Germany is Alaska's fifth-largest export market. In 2003, Alaska exported $110 million to Germany, down from $118 million in 2002. Seafood comprises 77% of exports to Germany, followed by minerals, at $29 million (up 139%).

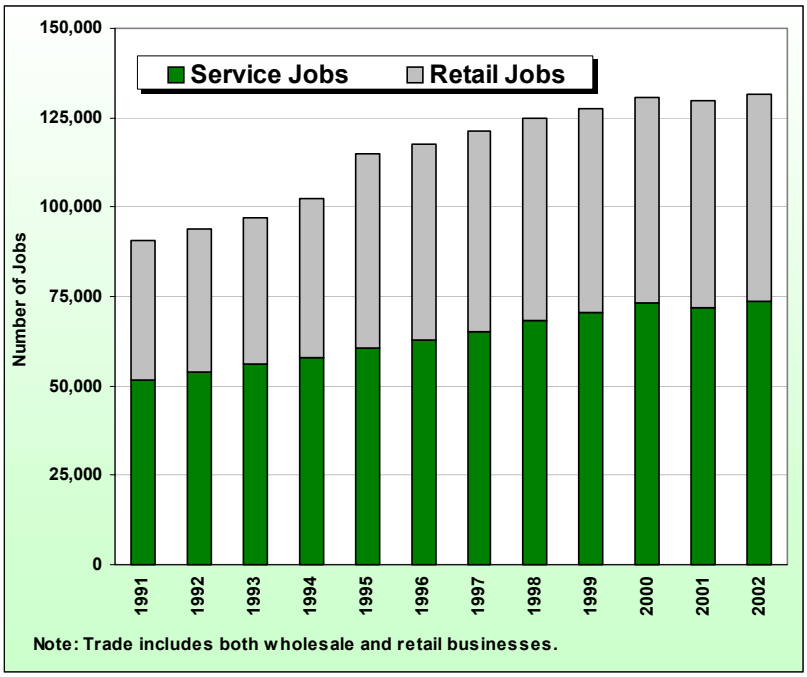
Other Alaska Trade Partners – Alaska's other export markets include the Netherlands, Mexico, Belgium and Switzerland. In aggregate, 2003 trade with these partners was up by nine percent over 2002.

Support Sectors

Retail and Services Sectors

Beginning in 2002, the new North American Industry Classification System (NAICS) was implemented. The private sector is now divided into goods-producing and service-providing sectors. The new system decreased the number of businesses classified in retail/wholesale trade, and increased the number of businesses in the services sector. The retail trade and services sector has been the fastest-growing component of the state's economy. In 2002, there were 175,050 jobs in the service-providing sector, or 60% of total employment.

Service and Trade Employment, 1991 - 2002



Source: Alaska Department of Labor, Workforce Development

Finance, Insurance and Real Estate (FIRE)

Low interest rates mean a good lending environment. Alaska's financial, insurance, and real estate (FIRE) sector supported an average of 12,122 jobs in 2002. Employment in these sectors has been very stable since 1999.

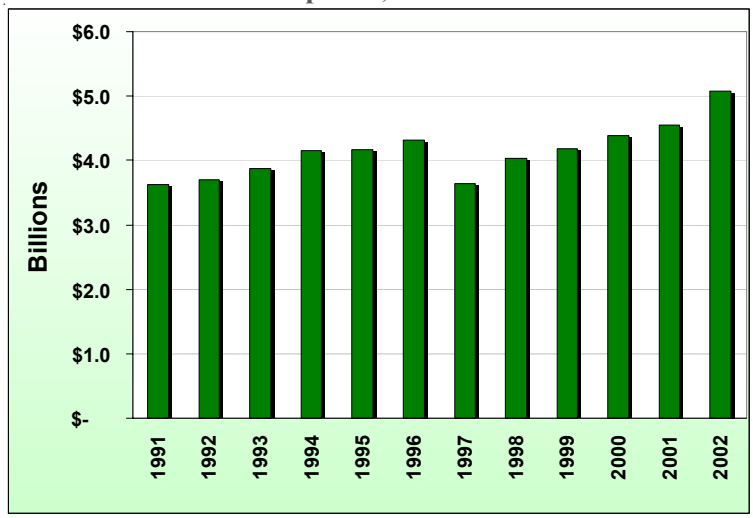
Total reported assets held by Alaska banks were about $7.1 billion in 2002, an increase of 9% from the previous year's $6.6 billion. From 1996 to

Alaska State Banks Assets, 1991 - 2002

Source: DCED, Division of Banking, Securities, and Corporations

1997, a substantial decrease in reported assets occurred when Bank of America and Key Bank became national banks – their holdings are no longer reported as part of Alaska bank holdings. The recent mergers in Alaska follow the national trend of consolidation as banks take advantage of economies of scale. Total deposits in 2002 increased to $5.0 billion from $4.5 billion in 2001. Deposits rose 12% during this time period.

Alaska State Banks Deposits, 1991 - 2000



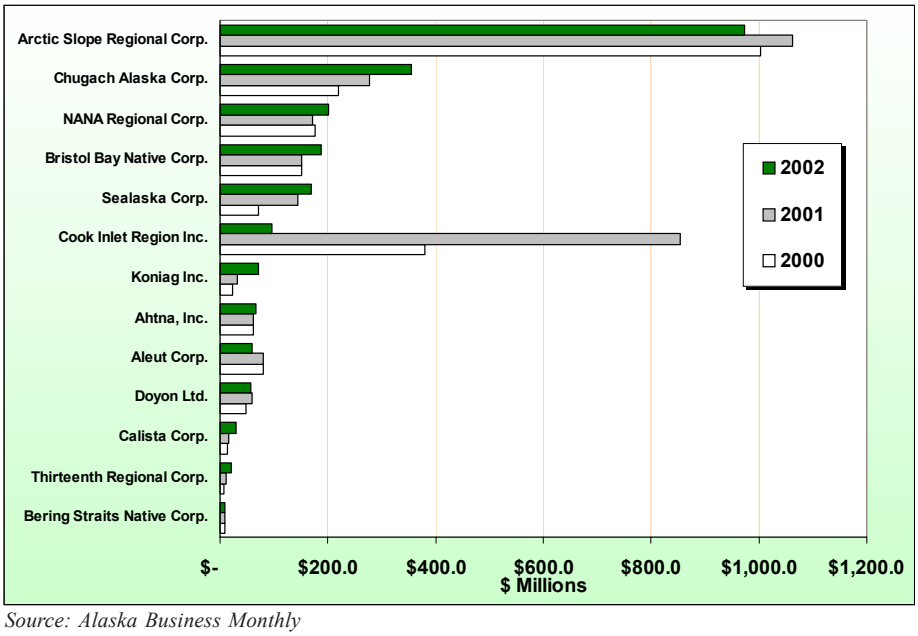
Source: DCED, Division of Banking, Securities, and Corporations

Alaska Native Corporations

Native corporations now have the economic muscle to continue growing and thriving. For the purposes of this report, the Regional Native Corporations are included in the FIRE sector. Ranging from natural resources to contracting services, each corporation has many components that provide revenue. Some revenue is accumulated through Section 7(i) of the Alaska Native Claims Settlement Act (ANCSA), which states that 70% of revenues generated from resource development (other than rock, sand and gravel) are to be shared among all Regional Native Corporations. In addition to this, many corporations have small subsidiaries and joint ventures dealing with pipeline maintenance, real estate management, fiber-optic telecommunications, and utilization of natural resources. Revenue from natural resources comes from oil and gas, minerals and gravel, and timber.

The table above shows Regional Native Corporation revenues from 2000 – 2002. The growth in Native corporations helps explain why the private support sector is still growing, while many of the traditional economic base industries show flat or declining trends.

Alaska Regional Native Corporations, 2000 - 2002 Revenues



Source: Alaska Business Monthly

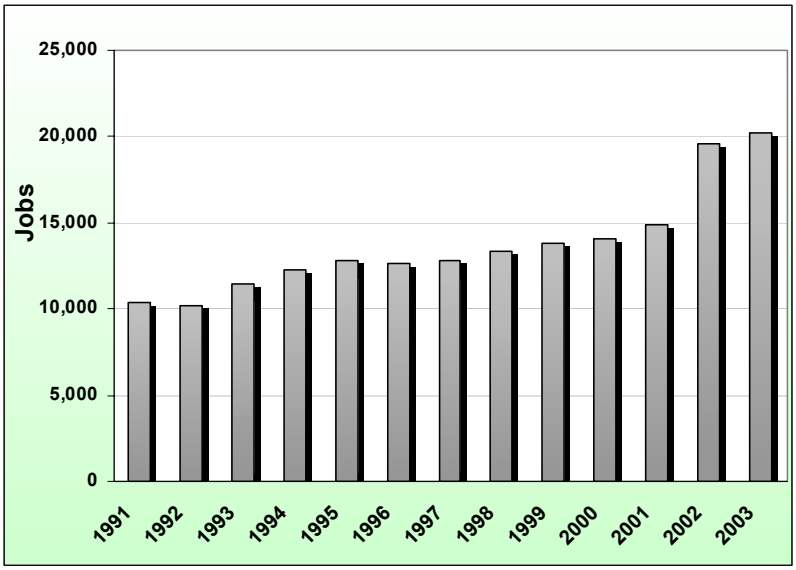
Alaska Regional Native Corporation Revenues			
Name of Corporation	2000	2001	2002
Arctic Slope Regional Corp.	$1,003.7	$1,061.8	$973.7
Chugach Alaska Corp.	$219.8	$278.1	$354.4
NANA Regional Corp.	$176.2	$172.7	$201.9
Bristol Bay Native Corp.	$150.2	$150.1	$187.4
Sealaska Corp.	$72.1	$144.6	$169.5
Cook Inlet Region Inc.	$379.7	$853.9	$95.1
Koniag Inc.	$22.4	$31.0	$70.7
Ahtna, Inc.	$62.0	$62.7	$65.6
Aleut Corp.	$79.2	$79.3	$60.7
Doyon Ltd.	$47.7	$59.9	$56.9
Calista Corp.	$13.6	$16.9	$28.9
Thirteenth Regional Corp.	$6.7	$10.6	$21.3
Bering Straits Native Corp.	$9.3	$9.6	$10.2

Source: Alaska Business Monthly

Construction

Nearly $4.5 billion dollars in construction projects occurred during 2003, down about eight percent from 2002 – a record year. The difference is attributed to lower oil industry spending due to less exploration. According to economists at the Alaska Department of Labor and Workforce Development, residential construction was the highest in 2003 as all three levels of government funded construction growth on the public side. Military projects, new roads, expansion of the Ted Stevens International Airport and the University of Alaska rounded out 2003 construction activity. Construction employment topped 20,000 in 2003, peaking at 20,200 jobs during August. The industry gained 600 jobs in 2002, an increase of nearly three percent. Following the recession in the late 1980s, construction employment grew gradually and has maintained a consistent level in recent years. Construction during 2002 was the best since the Trans-Alaska Pipeline was built in the 1970s. There has been an increasing trend in construction employment since 1991.

Construction Industry Employment, 1991-2003



Source: Alaska Department of Labor, Workforce Development

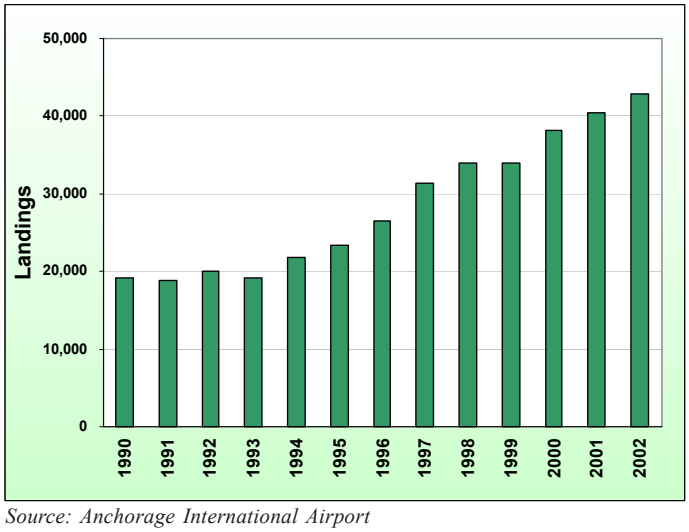
Transportation

Transportation plays a much larger role in Alaska's economy than in much of the rest of the nation. Identified statewide transportation needs approach $7.5 billion dollars, and no other State relies as heavily on federal funds to help meet its transportation infrastructure needs. The State's proposed FY 2005 capital budget includes more than $977 million in federal transportation funds, including projects for which funding has not yet been appropriated by Congress. Federal funding for road, highway, and ferry projects totals $409 million, with another $168 million for airport improvement projects in Alaska.

Air Transportation. Air transportation accounts for half of all transportation employment in Alaska, compared with less than one-third nationally. In Anchorage, one in 10 residents works in an airport-related job. There are over 1,100 airstrips and airports in Alaska, almost 10,000 registered aircraft, and as many pilots. The State owns or operates 171 gravel-surfaced airports, 43 paved airports and numerous seaplane bases. Municipalities own or operate another 20 airports. Ted Stevens Anchorage International, Fairbanks International, Juneau International, and Ketchikan International airports account for most air activity occurring throughout the state. The majority of funding for these and other airport facilities comes from the Federal Aviation Administration through the State Department of Transportation and Public Facilities' Airport Improvement Program, and in 2004 totaled $168 million.

Air Cargo. Airport planners expect Anchorage's air cargo to continue to expand an average of 5% annually over the next five years. This mirrors worldwide market trends, but is significantly down from the double-digit growth experienced during the 1990s. Between 2002 – 2003, Ted Stevens Anchorage International air cargo grew 6% and ranked fourth in the world in total air cargo traffic. The airport annually ranks among the nation's top ten cargo airports, averaging approximately 520 cargo flights weekly. During 2004, eleven all-cargo domestic airlines, 19 all-cargo international airlines, and three all-cargo international charter airlines were served. State airport planners project a four-fold increase in needed cargo facilities and a 25% increase in other aviation-related facilities at the Ted Stevens Anchorage International Airport over the next 15 years.

Ted Stevens Anchorage International Airport, Cargo Aircraft Landings, 1990-2002



Source: Anchorage International Airport

Surface Transportation. Today, 1,487 miles (73%) of National Highway System roads in Alaska meet federal standards. The statewide highway budget in FY 2005 is approximately $410 million, and targets extensive projects from reconstructing roads and replacing bridge replacements to trail safety marking.

Rail. Alaska's rail system continues to see major improvements in facility operations and markets. Today, year-round container ships serve the Port of Anchorage and railcar-barge services occur between Alaska and the continental United States. Despite significant competition from trucking services, the volume of rail freight increased 1.5% annually over the past five years. Momentum continues to build over construction of an Alaska-Canada railroad. Opening a railroad connection between Alaska and the North American rail system has the strong support of Governor Murkowski, the Alaska congressional delegation, and the Canadian governments of Yukon, British Columbia, and Alberta. Connecting Alaska with the North American rail system has been a goal since 1898. Federal legislation has authorized a bilateral commission the task of completing a feasibility study with $6 million in funding. Cost estimates for the nearly 1,000 miles of new rail are as high as $3 billion.

Marine Cargo. In vast regions of Alaska, tug and barge operations provide essential services to communities in need of supplies and heating oil. Private companies, including tug and barge operations, chartering, lightering and warehousing employ the majority of Alaskans working in marine operations. A recent development in multi-modal shipping, called the Alaska Rail Marine service, provides direct shipping of individual railroad cars aboard Lynden mainline barges destined for Alaska Railroad operations at the Port of Whittier.

Alaska Marine Highway System. In addition to private barge services, waterborne transportation is provided by the Department of Transportation and Public Facilities' Alaska Marine Highway System (AMHS). In Southeast and Southwest Alaska the AMHS provides both mainline and regional ferry service with vessels capable of carrying both passengers and refrigerated cargo vans. Serving the tourism industry presents new opportunities for the AMHS and continues to provide a significant revenue stream for the system. In 2004, two new vessels entered the system and operate in Southeast waters.

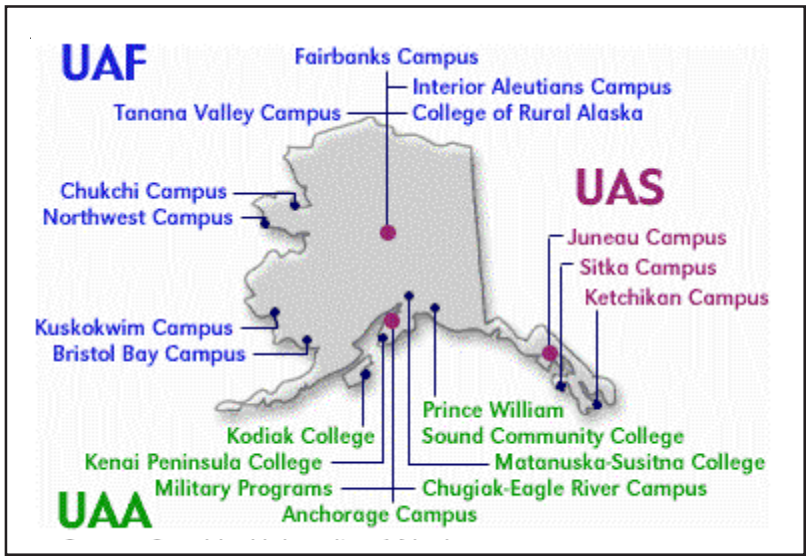
Other Public Ferry Operations. The Inter-island Ferry Authority (IFA) operates a daily ferry in southern southeast between the community of Hollis on Prince of Wales Island and the City of Ketchikan. This new service is considered a success and compliments regional service by the AMHS. The IFA has plans for a second vessel intended to operate in the same area.

Ports and Harbor Development. An active working partnership among the State of Alaska, local communities, and the U.S. Army Corps of Engineers assures that Alaska's seaports and coastal harbors operate in a safe and efficient manner. New and improved ports and harbors are expected to reduce the delivery costs of goods and services, increase the frequency of delivery, and improve the productivity, safety, and standard of living for Alaskans.

University System

A major source of jobs in Alaska is the University of Alaska, with three regional centers, in Anchorage, Fairbanks and Juneau, and associated campuses located around the state. The University serves about 17,000 students. The University has a scholarship program for Alaska residents who graduate in the top 10 percent of their high school class. The program is part the University's initiative to produce the "home grown" knowledge and workforce that Alaska needs to prosper in the more adaptive, global and high-tech "new economy."

Currently, 60% of Alaska's college-bound students leave the state and over half do not return. In contrast, about 80% of University of Alaska alumni stay to work and raise their families. The average salary levels for individuals with a Bachelor's degree are nearly double that for high school graduates. Simply stated, a university education enhances an individual's quality of life as well as the economic and social life in Alaska. Based on a McDowell Group study, a State investment of $190 million in the University returns $840 million back to Alaska. During the 1990s, average State spending for higher education increased by 42%, while overall funding increased by only 2%. Over the past ten years, the University has reduced its dependence on General Fund dollars from 60% of total spending to a little over 47%.



Source: University of Alaska

University of Alaska Fairbanks (UAF). UAF is the primary research institution of the Alaska University system and the only institution offering doctoral degrees. Originally founded in 1917 when Alaska was still a territory, today UAF is America's northernmost Land, Sea and Space Grant institution. UAF offers 160 degrees in more than 100 disciplines to meet the needs of our students and the world's changing workforce. UAF conferred over 936 degrees during its 81st commencement in 2003, including 75 certificates, 218 associate degrees, 436 bachelor's degrees, 171 master's degrees and 36 doctoral degrees. Graduates from UAF are more likely to stay and work in Alaska. More than 78% of students in the class of 2002 who responded to a graduation survey reported being employed within the state.

The number of students who attended the University of Alaska Fairbanks for the spring 2003 semester was up 12 percent overall from the prior year. UAF also offers distance-delivered

classes throughout the world using everything from print correspondence to web delivery. The Center for Distance Education offers some 120 courses in 39 disciplines, serving more than 4,000 students.

Of every $1 in State money spent on research at UAF, an additional $5.90 comes from federal and other sources. UAF ranks 55th out of all reporting universities nationwide in the amount of research money awarded from the National Science Foundation. In FY 2002, UAF faculty submitted almost 1,000 proposals generating more than $84.5 million in funding from sources outside the University.

UAF is the largest civilian employer in the Tanana Valley. In 2002, UAF employed more than 3,743 full- and part-time faculty and staff across the state, including 1,159 student workers, and had an annual payroll of more than $140.5 million.

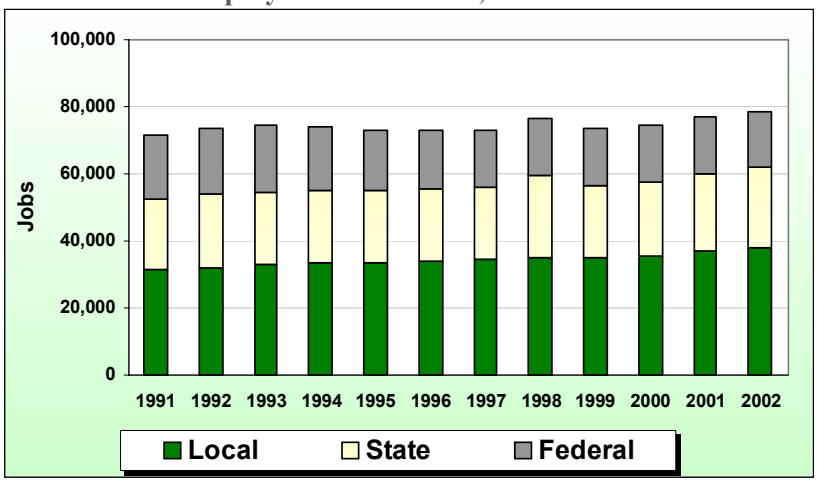
University of Alaska Anchorage (UAA). UAA is based in Anchorage and has campuses in Kenai Peninsula, Kodiak Island, Matanuska-Susitna, and Prince William Sound. Instruction is also offered in numerous other sites in Southcentral Alaska and the Aleutian Chain. UAA has exchange and cooperative agreements with Japan, Korea, Finland, Canada, China and Russia**.** UAA also employs a number of public-private partnerships designed to strengthen and diversify the economy, especially by developing a resident skilled workforce in a shortage category like health care. Over a three-year period, the University of Anchorage is matching $1.8 million in donations from Alaska's five largest health care providers in an effort to double the number of nursing graduates by 2006. In 2003, UAA had 7,000 enrolled students, and employed more than 2,100 full- and part-time faculty and staff, with estimated wages and salaries of $59.6 million.

University of Alaska Southeast (UAS). UAS serves students in Southeast Alaska, with the main campus in Juneau. UAS has exchange and cooperative agreements with over 100 institutions around the world through its international education consortia affiliations. The Juneau campus offers a wide range of certificate and two-year programs, as well as baccalaureate and graduate degrees. In 2003, UAS had the greatest percentage of growth of all UA campuses – over 11% from the previous fall. Growth is attributed to new degree programs, successful distance delivery programs, and a one-year master's of arts in teaching. In 2003, UAS had 3,700 students enrolled and employed more than 300 full-time and part-time faculty and staff, with estimated wages and salaries of $11.0 million.

Government

Government plays a critical role in Alaska's economy. In 2002, government employment accounted for 78,798 jobs, approximately 27% of total employment in the state. Government employment included 38,190 local government jobs (including school district jobs) 23,847 State government jobs, and 16,761 federal government jobs. Since federal programs bring new money into Alaska, federal employment is considered to be an element of the economic base. The figure above shows that local government employment is increasing, while State employment has been stable. Federal government employment is decreasing, primarily due to military base closures.

Government Employment in Alaska, 1991 - 2002



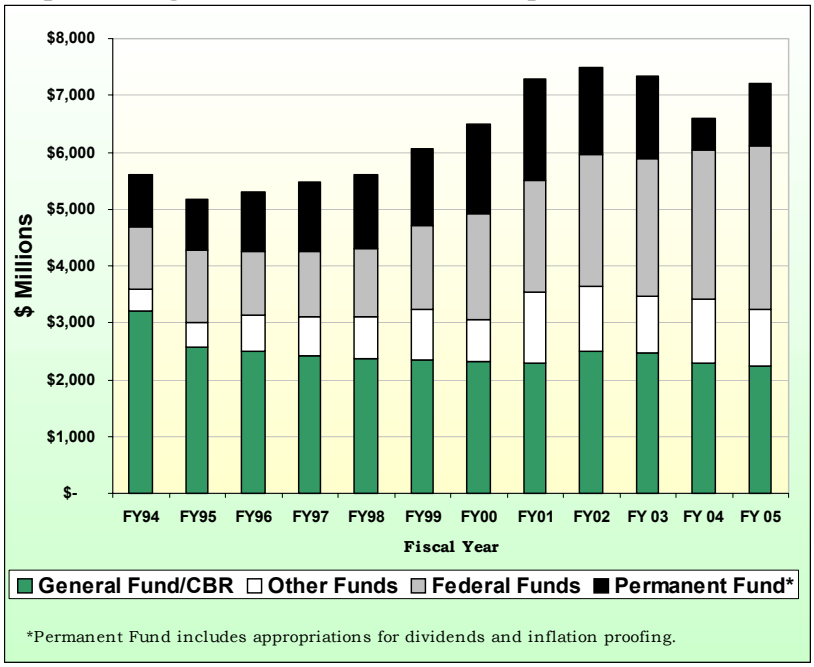
Source: Alaska Department of Labor, Workforce Development

State Government

State government directly employed 23,847 Alaskans in 2002, and indirectly generated jobs for thousands of local government, retail trade and services workers. Government spending on capital improvement projects accounts for over a billion dollars each year. In 2003, State and federal capital improvement projects were $1.452 billion, a record high. The majority of capital improvement projects in Alaska are federally funded.

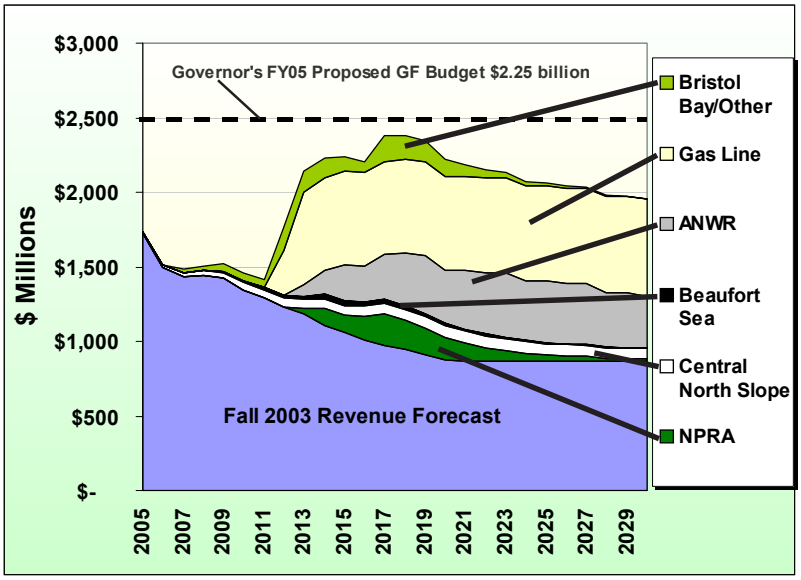
The State's fiscal gap remains one of the most important issues, despite $27+ billion in

Appropriations by Revenue Source; Operating and Capital Budgets FY 1994 - FY 2005 Proposed



Source: Legislative Finance Budget History File

Fall 2003 State Oil Revenue Forecast, Governor's FY05 Proposed Budget, and Potential Sources of Future Revenue



the Permanent Fund and Constitutional Budget Reserve (CBR). State leaders are seeking solutions that include using part of the Permanent Fund and a legislative spending cap. Since fiscal year 1995, the State's General Funds and CBR are decreasing and dependence on federal funds are increasing. Timing is a critical issue as potential future revenues from oil and gas are years away. At current spending levels, and absent any new revenue sources, the Constitutional Budget Reserve balance was projected to drop below $1 billion in July 2006, and to be completely depleted by July 2007. However, sustained high oil prices – above $30 per barrel – have generated over $500 million in unexpected revenues. This allows the life of the CBR to extend to 2007 or beyond. A billion-dollar balance in the CBR is often cited as the minimum to cushion General Fund revenues from oil price volatility and provide for the State's cash flow needs.

Capital improvement projects in 2003 provided for Expanded or Improved Services (43%), Basic Infrastructure (29%), Health and Safety (28%), and Economic Development (less than 1%). See the figure and table at right for more detailed information.

State and Federal Capital Improvements in Alaska Communities, by Funding Year

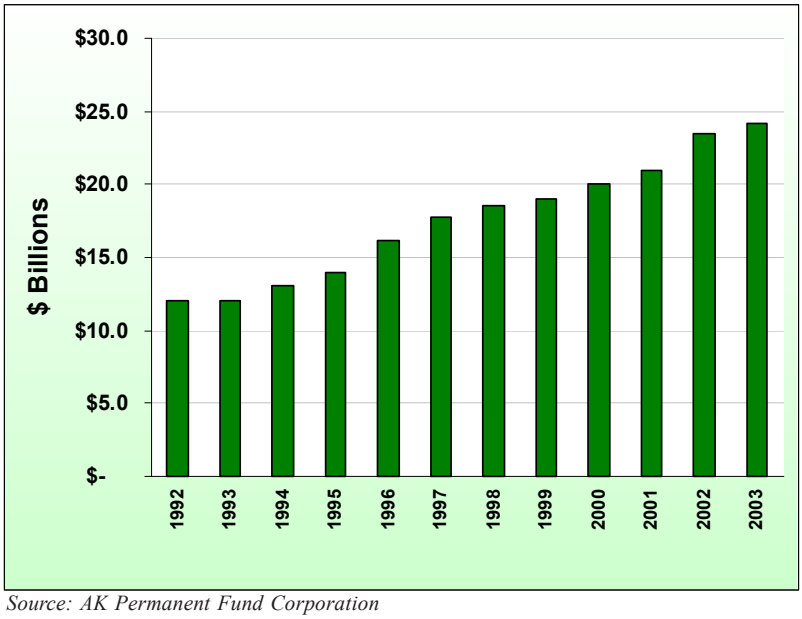
	1999	2000	2001	2002	2003
Economic Development					
Economic & Business Dev	$9,995,494	$7,773,785	$15,005,088	$6,314,994	$5,879,184
	$9,995,494	**$7,773,785**	**$15,005,088**	**$6,314,994**	**$5,879,184**
Basic Infrastructure					
Bulk Fuel	$65,945,830	$27,609,326	$23,208,523	$27,471,695	$13,421,236
Electrical	$11,003,511	$36,485,019	$14,171,470	$22,212,001	$61,991,478
Harbors & Docks	$66,994,650	$27,696,883	$37,233,609	$122,837,111	$257,137,194
State Roads	$69,670,676	$229,133,435	$222,662,126	$236,611,866	$67,424,087
Marine Ferry	$18,572,781	$25,094,468	$17,834,537	$11,939,003	$16,509,497
	$232,187,448	**$346,019,131**	**$315,110,265**	**$421,071,676**	**$416,483,492**
Health & Safety Infrastructure					
Airport Improvements	$326,107,151	$123,080,512	$228,029,671	$180,000,342	$211,819,579
Water & Sewer	$122,204,434	$98,754,922	$78,661,289	$187,240,458	$148,188,861
Landfill	$9,942,655	$7,986,178	$4,552,879	$7,990,915	$3,548,165
Health Facilities	$15,444,314	$9,087,170	$61,346,970	$93,323,602	$31,644,966
Public Safety	$1,468,925	$3,698,184	$2,605,801	$17,384,315	$14,352,484
	$475,167,479	**$242,606,966**	**$375,196,610**	**$485,939,632**	**$409,554,055**
Expanded or Improved Services					
Local Roads	$62,661,245	$94,036,061	$116,233,606	$72,507,598	$64,999,587
Facilities/Buildings	$84,999,554	$116,233,125	$42,126,532	$95,145,704	$102,947,582
Housing Construction / Repair	$155,460,146	$139,407,245	$130,592,912	$165,169,256	$129,471,176
Other	$2,528,211	$2,848,586	$1,192,051	$43,488,377	$89,852,762
Schools	$56,771,330	$3,559,722	$108,046,704	$81,147,085	$231,668,870
Equipment Purchases	$3,687,033	$2,815,909	$4,013,208	$3,610,803	$2,043,628
	$366,107,519	**$358,900,648**	**$402,205,013**	**$461,068,823**	**$620,983,605**
	$1,083,457,940	**$955,300,530**	**$1,107,516,976**	**$1,374,395,125**	**$1,452,900,336**

Source: DCED RAPIDS Capital Project Database

Alaska Permanent Fund

Established in 1976 by State constitutional amendment, the Alaska Permanent Fund invests dedicated oil revenues, special legislative appropriations and fund earnings into high quality, income-producing securities, bonds and real estate. As of the end of the fiscal year 2003, the fund principal totaled $24.2 billion and the market value of the fund assets totaled $25.9 billion, an increase of $2.4 billion over the previous fiscal year. The fund ended the 2003 fiscal year with a net earnings of $669 million, an increase of $412 million over 2002.

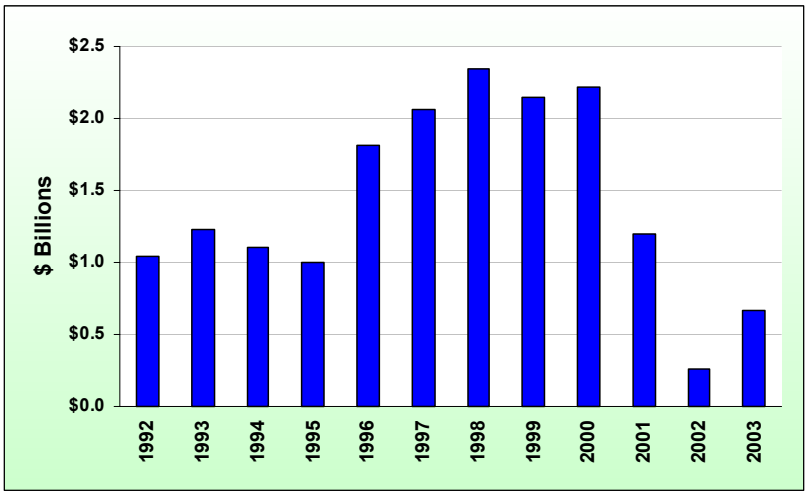
Permanent Fund Principal 1992 - 2003



Source: AK Permanent Fund Corporation

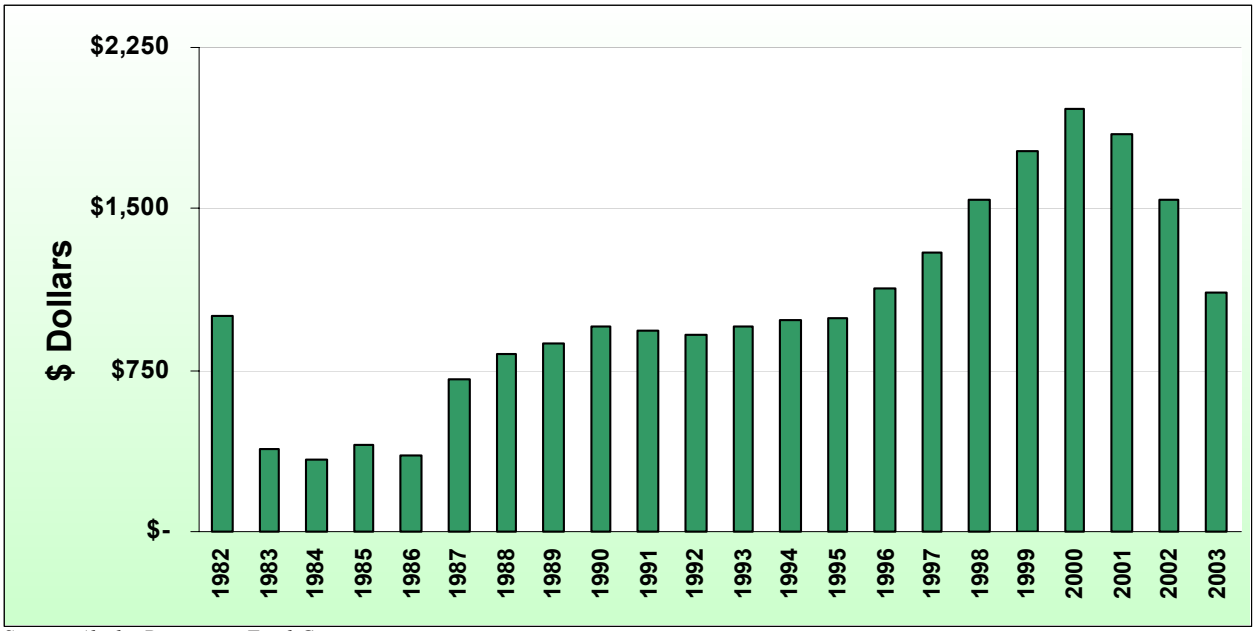
The main goals of the fund are to ensure its stability and continued growth. The Alaska Permanent Fund provides a yearly dividend to all Alaskans. 2000 was the peak dividend year when Alaska residents received $1,963.86. Dividends have decreased each year since 2000 and were $1,107.57 in 2003. The total pay-out to Alaskans has an important impact on the economy – especially in retail trade and services.

Permanent Fund Net Income 1992 - 2003



Source: Alaska Permanent Fund Corporation

Alaska Permanent Fund Dividends Per Individual



Source: Alaska Permanent Fund Corporation

Aerospace

The Alaska Aerospace Development Corporation (AADC) is a public corporation created by the Legislature in 1991. It supports the $40 million Kodiak Launch Complex (KLC) – the only U.S. commercial launch range that is not co-located with a federal facility. KLC is most suited for launching telecommunications, remote sensing, and space science payloads of up to 8,000 pounds. Kodiak Island is ideal for polar launches due to its wide launch azimuth and unobstructed down-range flight path. Other advantages include a resident population of about 15,000, with a skilled workforce in construction, telecommunications and electric utilities. AADC, in cooperation with the Kodiak Island Borough, was successful in receiving designation for the Kodiak Airport, Kodiak's dock facilities, and the KLC site as a "foreign trade zone." This will exempt foreign payloads and launch vehicles from customs duties otherwise imposed on those activities. A foreign trade zone will also benefit other Kodiak activities by reducing taxes and encouraging processing activities.

RISE Alaska LLC has a management contract to support professional services, the facility logistics and day-to-day maintenance of the KLC. The overall KLC team includes Orbital Sciences Corporation; BRPH Companies; Thiokol Propulsion, United Paradyne Corp.; MTNT Development, Inc.; Alutiiq Management Systems, LLC; SMI International; and Kodiak Transfer, Inc. Recently, the U.S. Missile Defense Agency finalized a record of decision for the Environmental Impact Statement on the North Pacific Test Range. This formally designates KLC as a test site in the national missile defense system. It also clears the way for future development.

Fairbanks Ground Stations. The AADC is also promoting Fairbanks as a location for polar orbiting satellite ground stations. Several companies are building or operating satellite ground stations near Fairbanks, and others have selected Fairbanks as the site for future ground stations. Fairbanks' proximity to the magnetic North Pole provides a greater number of opportunities to communicate with polar orbiting satellites. Typical polar orbiting satellites make about 15 complete orbits around the earth each day, as opposed to those orbiting near the equator, which only orbit once per day. This greatly increases the time to communicate with the satellite, check operational status, issue commands, and perform data recovery.

Alaska Seafood Marketing Institute

Alaska Seafood Marketing Institute (ASMI) is the State's official seafood marketing agency. It was established in 1981 as an industry and State government partnership to stabilize the seafood industry. ASMI's mission is to increase consumption of Alaska seafood and promote the quality and superiority of Alaska seafood products.

Seafood processors tax themselves to help fund the program, and their assessment currently stands at 3% of the value of all seafood species. In 1993 the legislature enacted a 1% salmon marketing tax to be paid by commercial salmon fishers. This tax must be reinstated every five years, and was renewed in 1998. Federal funds in 1988 expanded the seafood marketing field offices from the United Kingdom (U.K.) to Japan and France. Additional field offices were established in Australia, Italy, Korea, and the Netherlands in 1992, and in Belgium, China, Taiwan and Hong Kong in 1996. As industry contributions to ASMI increased, State and federal participation decreased. The last State contribution to ASMI was in fiscal year 1997. Congress has appropriated $5 million in federal funding to the Alaska seafood industry under the Trade Adjustment Assistance Act to help the Alaska salmon industry cope with lost market shares to foreign-farmed salmon. Using these funds, in 2001, ASMI began a 3-year Alaska salmon campaign in the U.S. The majority of the federal grant supports a national public relations campaign for Alaska salmon. The return on investment: ASMI expenditures of $900,000 generated media coverage valued at $19.7 million.

ASMI's traditional export markets are Japan, the United Kingdom (U.K.) and central Europe, and is entering emerging markets in southern Europe and China. The U.K. is primarily a market for Alaska canned salmon, but now imports more fresh/frozen Alaska salmon for value-added products at retail stores. The reduced supply of cod in the European Union (E.U.) has increased the demand for Alaska whitefish such as Alaska pollock. In France, new markets are open for value-added Alaska salmon.

Export programs promote the "Alaska" brand through food service and retail promotions, public relations, industry seminars, trade and consumer advertising, and trade education. Trade leads collected overseas are electronically forwarded to all interested Alaska seafood industry members. ASMI also participated in trade missions by the Governor to Japan and China. Some of the accomplishments reported for 2003 are:

- 23,864,957 lbs. of Alaska seafood sold overseas through ASMI retail promotions
- 1,307,061 lbs. of Alaska seafood sold overseas through ASMI food service promotions
- 9,912 chefs exposed to Alaska seafood through promotions and seminars overseas
- 8,617 overseas stores are conducting ASMI promotions
- increased the pounds of value-added seafood sold by 38.8%
- increased the volume of canned salmon sold in the U.K. by 76%
- maintained 248 promotional partners for export food service program
- established 22 new promotional partnerships food service
- established 272 new promotional partners for export retail program

Alaska Industrial Development and Export Authority

The Alaska Industrial Development and Export Authority (AIDEA) is a public corporation of the State of Alaska. The primary goal of AIDEA is to encourage economic growth and diversification. It was created by the Alaska Legislature to "promote, develop and advance the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment." In addition to creating jobs and supporting Alaska businesses through financing programs, AIDEA also pays a dividend to the State. During fiscal year 2003, the dividend was $22 million. As of June 30, 2003, there was a total of 475 loans serviced by AIDEA with a principle balance of $226.9 million.

AIDEA Loan Participation/Guarantees, 1992 - 2003

Region	Total Loan Participations/ Guarantees	Estimated Jobs Created		Percent of Outstanding Balance
		Construction	Permanent	
Anchorage/Mat-Su	$183,103,713	2100	1700	56%
Gulf Coast	$8,729,092	137	156	3%
Interior	$28,211,300	640	307	9%
Northern	$2,756,000	34	39	1%
Southwest	$40,952,500	251	494	12%
Southeast	$64,399,875	577	857	20%

Source: AIDEA

During 2003, AIDEA sold its interest in the Seward Coal Facility to the Alaska Railroad. AIDEA has also invested in Alaska Seafood International (ASI) and the Healy Clean Coal Project. No further investments are planned for ASI, as the company is being dissolved. Liquidation of ASI assets will go to creditors and AIDEA will sell the remaining building and property. AIDEA and the Golden Valley Electric Association have disputed over the economics of the Healy Clean Coal Project since 1998. The project has been idle since December of 1999 — a joint committee of both organizations are meeting to reach a consensus.

AIDEA provides and facilitates various means of financing business and economic development projects in Alaska. AIDEA is a secondary financial entity and is not a direct lender or provider of grants. AIDEA also has the ability to own and operate facilities that advance basic economic development. AIDEA-owned development projects include:

AIDEA-owned Development Projects — 2003
Snettisham Hydroelectric (near Juneau)
Federal Express Aircraft Maintenance Facility (Ted Stevens Anchorage Int'l Airport)
DeLong Mountain Transportation System (Red Dog Mine, Northwest Arctic Borough)
Skagway Ore Terminal
Healy Clean Coal Project
Ketchikan Shipyard
Seward Coal Loading Facility
Alaska Seafood International Facility (Anchorage)

Source: AIDEA

While AIDEA does not have current plans to invest in new developments, the Legislature has authorized the issuance of bonds for:

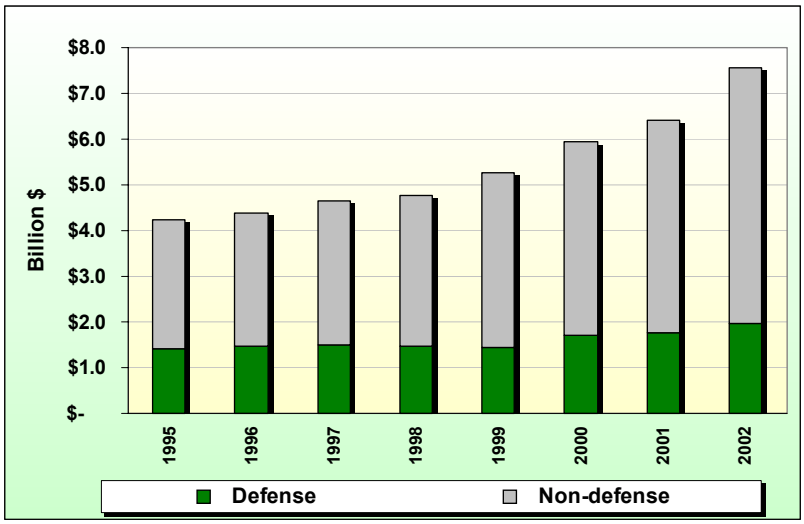
- Air cargo/transport support facilities at Ted Stevens Anchorage International Airport
- A bulk commodity loading and shipping terminal within Cook Inlet
- Improvements in existing Red Dog mine port facilities
- Improvement and expansion of the Nome port facilities
- Construction of Phase 1 of Hatcher Pass Ski Resort

In addition to its other development programs, AIDEA houses the Alaska Energy Authority (AEA). AEA's programs emphasize lowering the costs and increasing the safety and reliability of rural power systems. In this effort, AEA has invested hundreds of millions of dollars in rural Alaska over the last ten years, including the construction of diesel and hydroelectric facilities, upgrading existing facilities to improve energy efficiency, and exploration of innovative alternate sources of power generation.

Federal Government

The federal government plays a significant and growing role in Alaska's economy. Before statehood, and even before Alaska became a large oil and gas producer, federal agencies in health and social services, education and natural resources were a large and stable part of the economy. This is still true, although to a lesser extent. For comparison, the oil and gas industry share of Gross State Product (GSP) was about 20% in 2000 and 17% in 2001, while the federal government's share was 9% in 2000 and 10% in 2001.

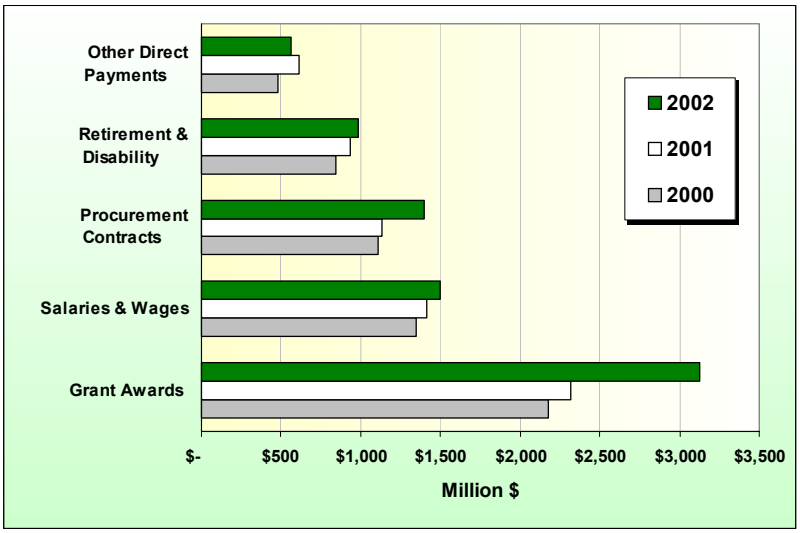
Federal Government Expenditures in Alaska



Source: Consolidate Federal Funds Report

In 2001, total federal expenditures and obligations were $6.4 billion — 72% for civilian programs and 28% for defense. In 2002, total federal expenditures increased by 18%, to $7.5 billion. Both civilian and military spending are up from the previous year. In addition, there are $1.25 billion in federal loans, loan guarantees, and insurance designated for Alaska. The following chart shows federal expenditures for the military and top 15 civilian agencies in Alaska from FY 2000 through FY 2002.

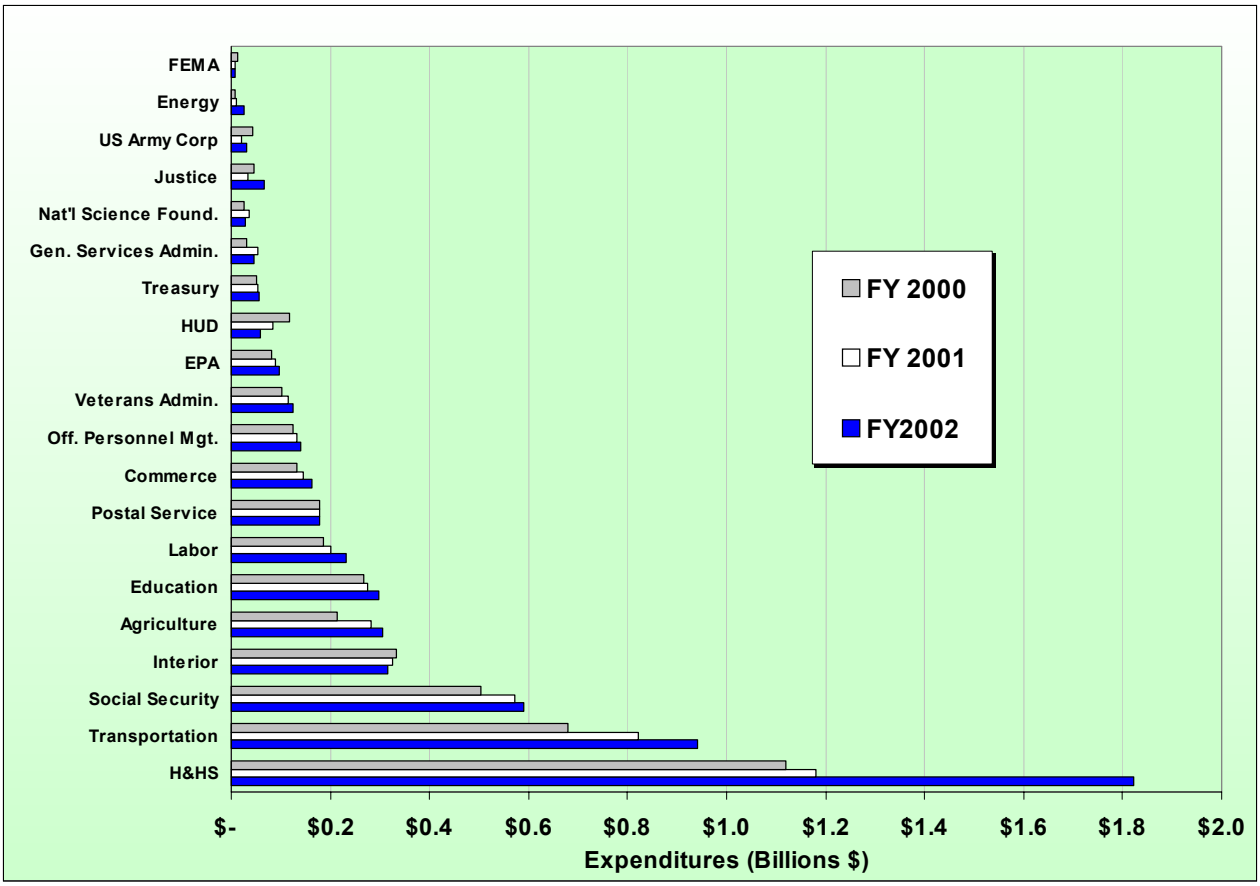
Federal Government Expenditures in Alaska



Source: Consolidate Federal Funds Report

Federal grants support nearly 400 programs, and some of the larger grants finance highways, airports, water and sewer systems, Medicaid, Aid to Families with Dependent Children, Temporary Assistance to Needy Families, workforce development and Indian Health services. The second largest expenditure category

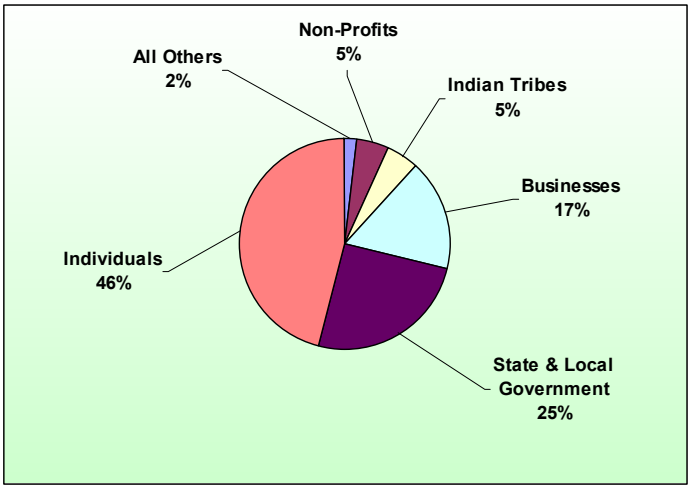
Expenditures, Top 15 Civilian Federal Agencies in Alaska



Source: U.S. Census Bureau

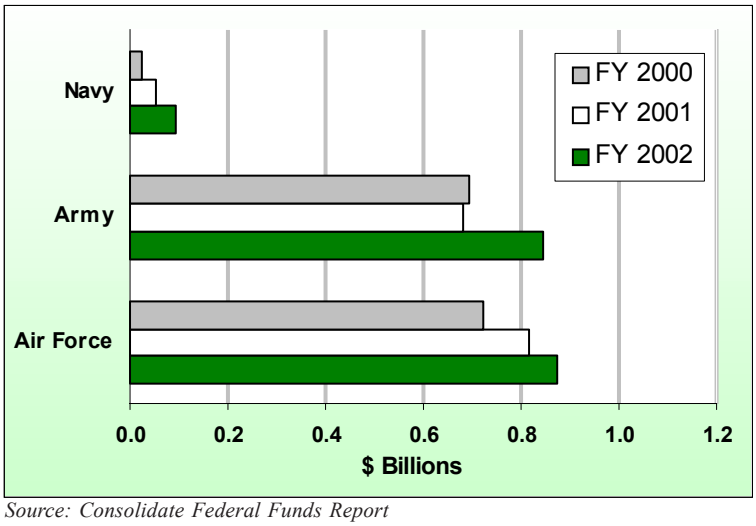
includes wages and salaries for federal employees and military personnel. Procurement contracts were about $1.4 billion in 2002 and are dominated by military spending (69%). Expenditures for federal retirement and disability include Social Security, retirement and veteran's benefits. Direct payments to individuals includes expenditures for food stamps, Medicare, unemployment benefits, and low income housing assistance. The distribution of federal spending is shown at right. Payments to individuals represents the majority.

Federal Spending in Alaska 2001



U.S. Missile Defense System. Reductions in military personnel at Fort Greely, near Delta Junction about 95 miles southeast of Fairbanks, started in 1995. Over the next six years, the federal government and the community of Delta Junction studied alternative uses of the base, but no viable anchor tenant was found. Since then, the U.S. Army Corps of Engineers has begun construction of test bed facilities for an U.S. missile defense project. The project is designed to explore the operational feasibility of the U.S. Ground-Based Midcourse Missile Defense system. The new test facility will cover about 260 acres at Fort Greely. Other test facilities will be constructed at Eareckson Air Force Station on Adak Island in the western Aleutians. The project will be incrementally funded and could amount to $250 million in construction if all items are executed. Fluor Alaska, Inc. and their subcontractors are employing about 100 construction workers on this project, and the number of jobs is expected to increase to 600-800 jobs. The government's stated intent is to provide a maximum opportunity for Alaska firms and qualified Alaskans to be employed in this construction project. Construction will be completed in 2004. When the site becomes operational there will be about 160 personnel assigned to the site. To help the City of Delta Junction provide additional services, the Department of Defense is providing $18-20 million in federal impact funds.

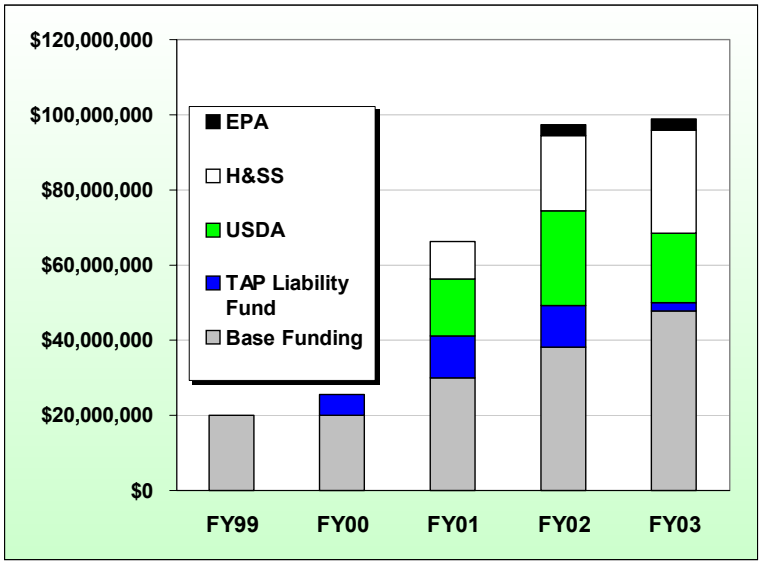
Federal Military



Source: Consolidate Federal Funds Report

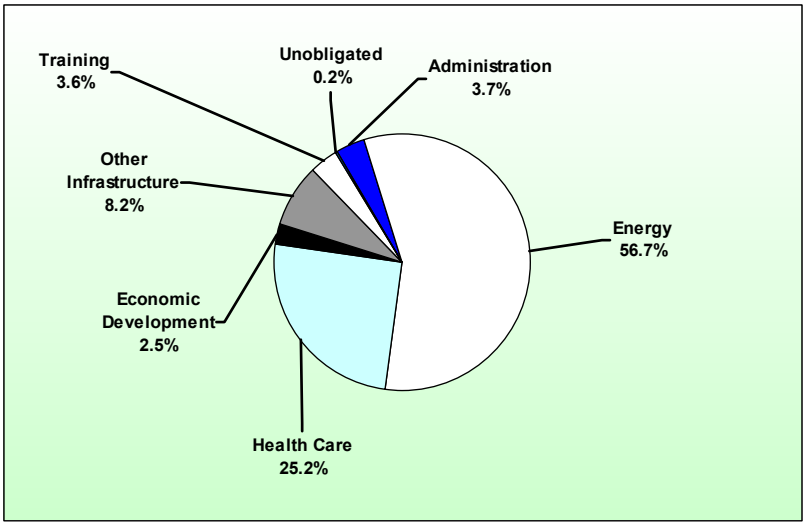
The Denali Commission. U.S. Senator Ted Stevens authored the Denali Commission Act of 1998, which was signed into law on October 21, 1998. The Denali Commission is an innovative federal-State partnership designed to provide critical utilities and infrastructure in Alaska. The goal is to lower the cost of living and raise the standard of living throughout Alaska by ensuring all residents have the means to achieve economic self-sufficiency. Initially, the Commission focused primarily on energy-related projects, especially power plant upgrades

Denali Commission Funding Summary



and new bulk fuel storage facilities. In 1999 the Commission's focus was broadened to include health care facilities. For FY 2001, federal appropriations for the Denali Commission totaled $66.3 million. Total appropriations for FY 2001 were $97.3 million, and $98.9 million in FY 2002. Sources of federal funding are becoming more diversified, expanding to include additional sources such as the Health and Human Services Fund, the USDA Rural Utility Service Fund, interest earned from the Trans-Alaska Pipeline Liability Fund, and the EPA. The cumulative funding allocation to the Denali Commission by project type is shown above.

Denali Commission Cumulative Funding Allocations 1999 - 2003



Alaska Economic Information System - AEIS

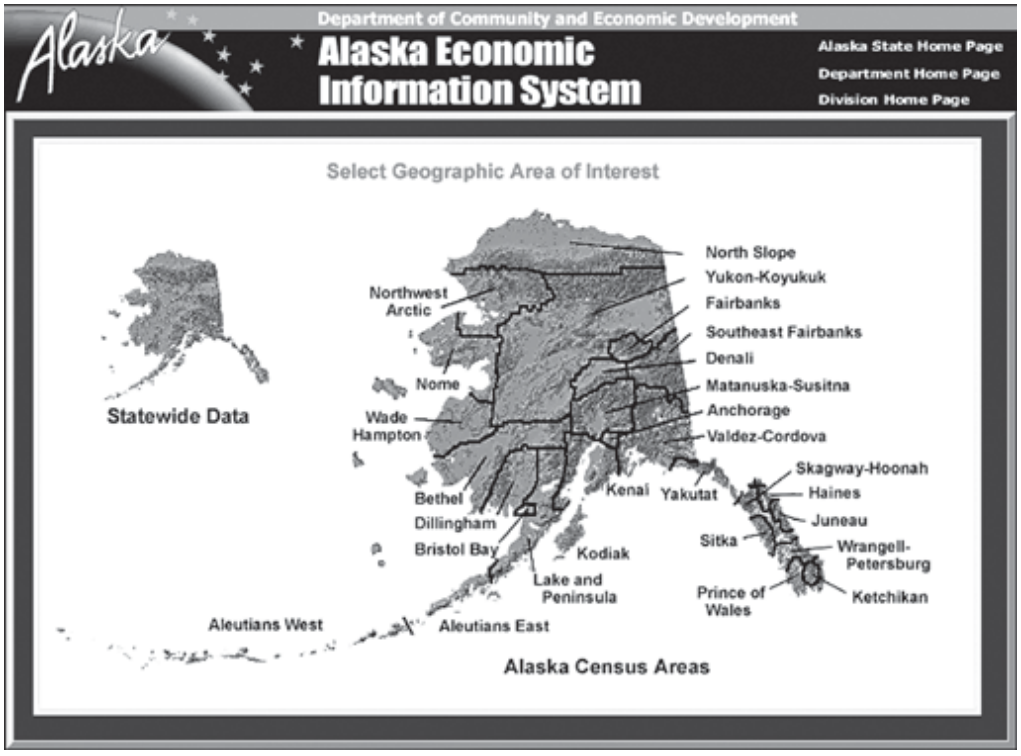
Department of Community and Economic Development

Department of
Community and
Economic Development

Until recently, information about Alaska's economy, labor force, and industrial sectors was scattered among a large number of agencies and organizations. The Alaska Economic Information System (AEIS) was created to provide user-friendly access to all this information at a one-stop portal on the web.

The AEIS represents a tremendous development resource for businesses, communities, and individuals — saving them significant time and effort in collecting the information on which to base development decisions and plans. Starting from a map of Alaska, users can "click" on a census area, and quickly get the picture of that area's basic economic industries such as tourism, oil and gas, mining, and seafood. Detailed information is also provided for the critical infrastructure elements of transportation, energy, and utility sectors that support long-term, viable economic development. A statewide perspective is also provided for each sector of the economy, and the Alaska economy as a whole.

Users can "drill down" through the information on the AEIS web site to get to greater levels of detail about their specific areas of interest, including maps, charts, and working spreadsheets that users can download to their own computers for further analysis. As a web portal, the AEIS contains a host of links to other web site relevant to an understanding of the Alaska economy, its workforce and its economic sectors.



On the web at:
http://www.dced.state.ak.us/cbd/AEIS/AEIS_Home.htm

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