

Alaska Economic Performance Report 2005



Oil and Gas Industry



Agricultural Industry



Mining Industry



Tourism Industry



Wood Products Industry



Seafood Industry



**Frank H. Murkowski,
Governor**



**William Noll,
Commissioner**
Michael Black, Director
Division of Community Advocacy

Alaska Economic Performance Report 2005

**State of Alaska
Department of Commerce, Community,
and Economic Development**

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June 2006

The 2005 report covers a range of economic indicators, industries and government actions. 2005 data is incorporated when available, however, most recent data for particular items may be from earlier years (2002, 2003, or 2004). For example, Gross State Product data is available as a 2004 total but the specific product breakout for 2005 is not yet available. Where possible, information is supplemented by anecdotal information or forecasts to reflect more recent events. In most 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 snapshot of the Alaskan economy by industry for 2005.



The Office of
Governor Frank H. Murkowski

June 2006

Dear Alaskan,

The Alaska economy is more productive than ever. With 18 consecutive years of job growth in Alaska, we all have more opportunities to live and work in Alaska. In addition, we are bringing new opportunities to the table by promoting the development of the state's abundant resources and using the unprecedented windfall from the price of oil to help meet the needs of Alaskans and plan for a more secure and brighter future.

Alaska's Gross State Product (GSP) has again increased year over year by more than seven percent, and the dynamic mix of industries comprising the GSP depicts a growing economic climate. My administration has been successful in ensuring that Alaska is "open for business" as evidenced by international trade activity. In 2005, Alaska's international exports totaled \$3.6 billion or 13.8 percent above 2004 totals, and our key trading partners continue to be prominent in the world economy including Japan, Korea, China, Canada, and Germany, among many more.

We are nearing completion of negotiations on a natural gas pipeline. This is a world-class project. The oil and gas pipelines will truly anchor our future. New revenues will allow us to continue to build the Permanent Fund and provide a long-term revenue source for continued support of essential public services without imposing state income taxes on our citizens. And it will, of course, provide many new good-paying job opportunities for Alaskans.

Success in the gas pipeline negotiations and a continued powerful economic environment will bring the financial stability and job opportunities needed to lead Alaska towards a bright and prosperous future.

Sincerely yours,

A handwritten signature in blue ink, reading "Frank H. Murkowski".

Frank H. Murkowski
Governor

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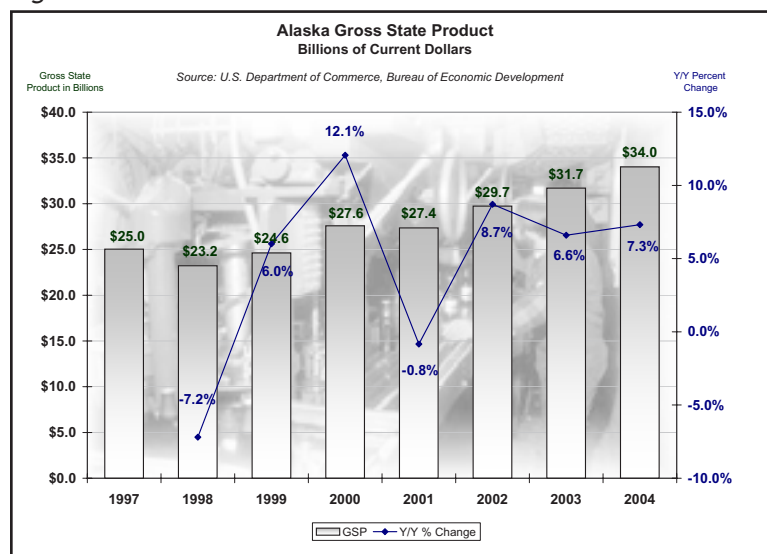
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Gross State Product (GSP)

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, ore is mined; the recovered minerals are converted to alloys, which in turn are used in the manufacturing of airplane parts, thus value is added at each stage.

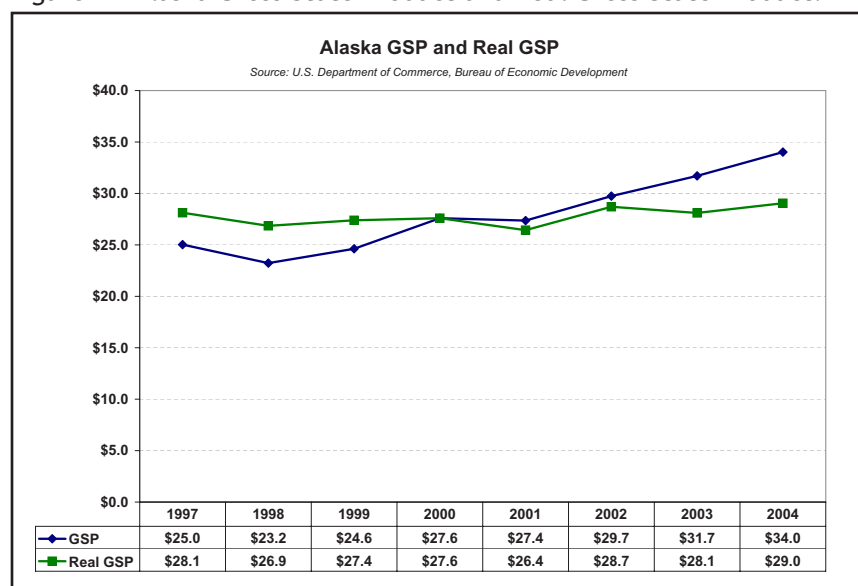
Figure 1 - Alaska Gross State Product.



In 2004, the most current data available, Alaska's Gross State product (GSP) was \$34 billion, up 7.3 percent from last year's level of \$31.7 billion, and up more than 23 percent from \$27.5 billion in the year 2000. Figure 1 describes GSP levels since 1997 in current dollars.

Figure 2 shows Alaska's GSP and Real GSP, which is the GSP adjusted for inflation. Real GSP shows a year to year gain of 3.4 percent and the gain from 2000 to 2004 of 5.3 percent.

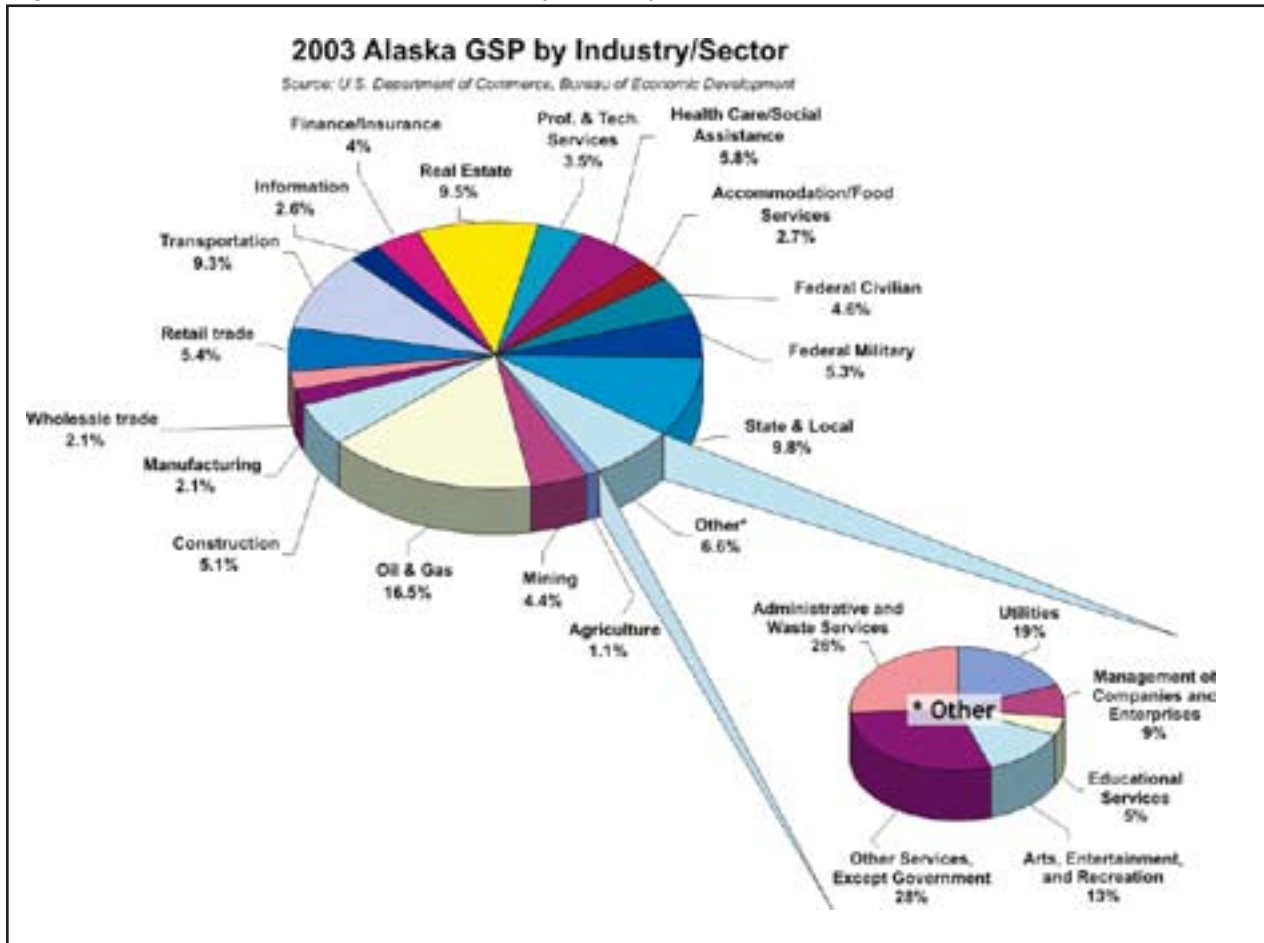
Figure 2 - Alaska Gross State Product and Real Gross State Product.



ECONOMIC DIVERSITY

Alaska's GSP figures not only reflect the overall growth in the economy, it mirrors economic diversity around the state. Figure 3 describes the distribution of GSP by sector.

Figure 3 - 2003 Alaska Gross State Product by Industry/Sector.

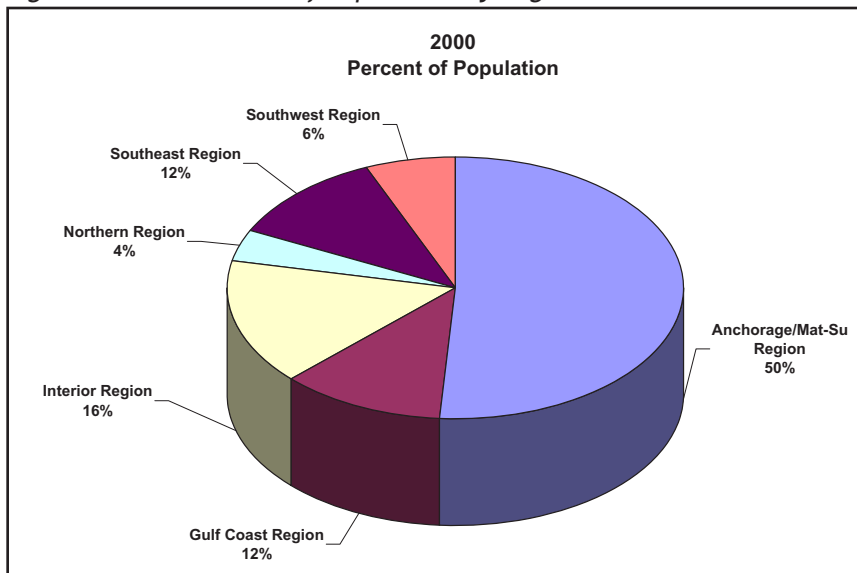


Economic data for year end 2003 reflect that oil and gas production, as a single sector, still dominates Alaska's economic base and presents significant long-term potential. However, other industries are also growing and becoming integral components of the economic base. For example, retail trade and services in the private support sector continues to expand. Finance, insurance, and real estate sectors combined (FIRE) comprise a steady 13 percent of Alaska's GSP that includes the impressive contributions by Alaska Native Corporations. Other services, including such sectors as food service and hotel accommodations remained unchanged from the previous year, but are expected to increase over the coming year as data from new tourism related activities becomes available. Alaska's commercial fishing industry continues on a path of recovery begun in 1998. Health care has also shown a modest increase from 2002; State and federal sectors each comprise about ten percent of Alaska's GSP. Combined, the output from these industry sectors continues to increase the GSP and diversify the state's economic base.

Population

Alaska's population continues to grow. It has been growing at a rate of 1.3 percent annually over the past decade. In 2005, the statewide population

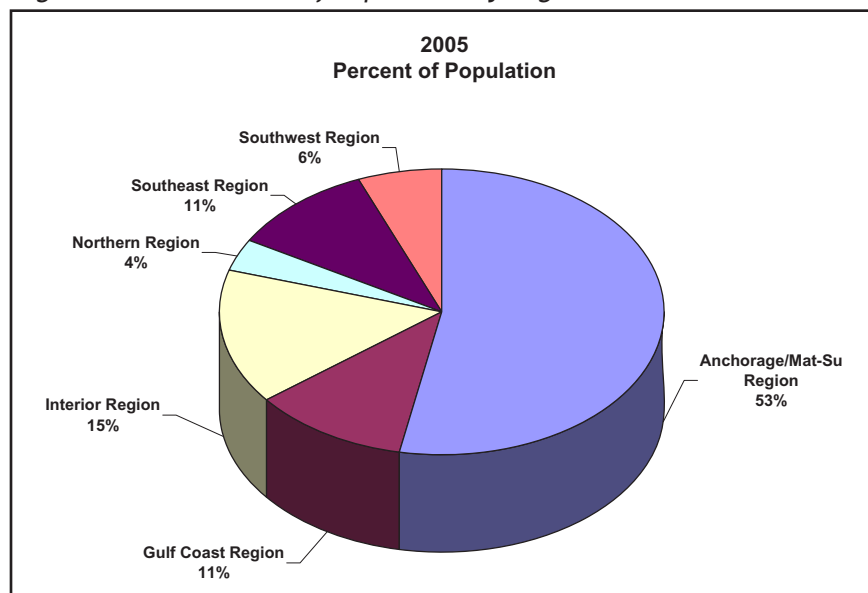
Figure 4 - 2000 Percent of Population by Region.



was estimated at 663,661, an increase of about 36,530 residents since the 2000 Census. Approximately one-third of the population is under the age of twenty. The Alaska Department of Labor and Workforce Development (AKDOL) estimates that the population will continue to increase to a level of almost 700,000 people by 2010.

The Matanuska-Susitna Borough continues to lead the state in population growth. Between 2000 and 2005 the population increased by almost 25 percent compared to six percent statewide and seven percent for the Municipality of Anchorage. This increase represents annual growth rates of 4.2 percent for the Mat-Su Borough; slightly more than one percent for the state; and 1.3 percent for the Municipality of Anchorage.

Figure 5 - 2005 Percent of Population by Region.

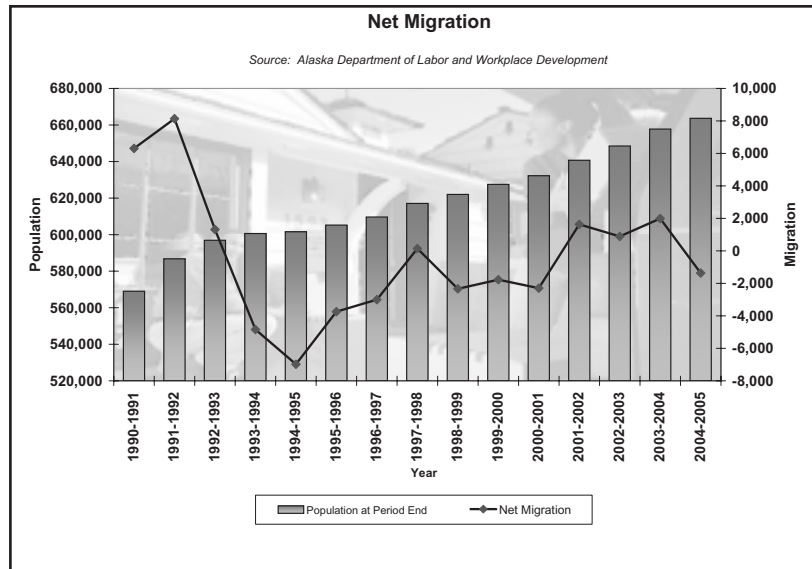


Population growth during 2005 in the Municipality of Anchorage and the Matanuska - Susitna Borough accounts for almost 90 percent of the state's overall growth, and 53 percent of Alaska's total population.

Since 1995, Alaska's net migration has generally been running negative, the notable exception being 2002 -2003.

During the period 2000 - 2005 only three places in the state saw growth occur primarily from net in-migration: the Municipality of Anchorage, Matanuska-Susitna Borough, and the Southeast Fairbanks Census Area.

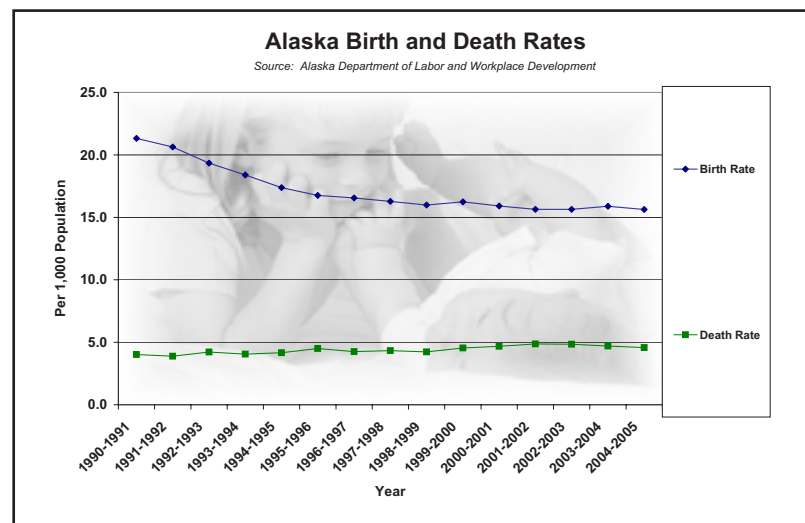
Figure 6 - Alaska Net Migration 1990 - 2005.



Other areas in the State are experiencing an overall slowdown or a reversal in average annual growth rates. The Kenai Peninsula Borough experienced a growth rate of approximately two percent from 2003-2004. During 2004-2005 the population began shrinking at -0.1 percent. The Yakutat City and Borough in 2004-2005 experienced population loss at a rate of -8.8 percent.

From 1994-2003, the average death rate increased from 4.2 to 4.9 but began dropping by the end of 2004 to 4.7 deaths per 1,000. Natural increases in population are more than offsetting population losses due to out migration and death.

Figure 7 - Alaska Birth and Death Rates 1990 - 2005.



Employment and Earnings

An estimated 5,700 new wage and salary jobs were added to Alaska's economy from 2004-2005, bringing the total number of jobs to almost 310,000, and extending the economy's amazing growth streak to 18 consecutive years. According to the Alaska Department of Labor and Workforce Development (AKDOL), each year's growth has come from a different combination of sources and there has often been dynamic change at the industry level. However, the mix between the Goods Producing sector and the Service Providing sector has remained stable with each sector representing 13 percent and 87 percent, respectively.

Figure 8 - 2005 Wage and Salary Jobs in Alaska.

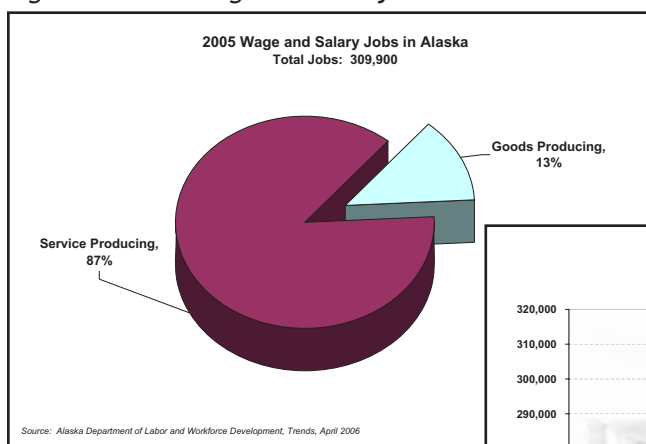
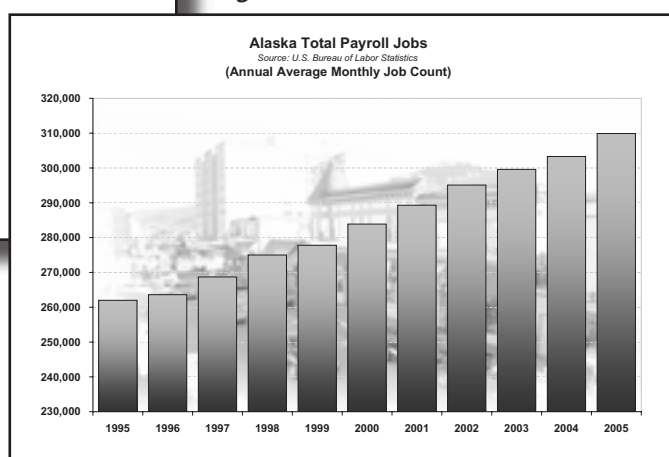


Figure 9 - 1995 - 2005 Alaska Total Jobs.



The most recent AKDOL figures and analyses show the following industry dynamics:

- ★ **Mining: Oil & Gas.** Alaska's mining sector, which includes the oil and gas industry, had an impressive year in 2005, adding 700 jobs for an annualized growth rate of 7.3 percent. Oil and gas employment averaged 8,700 jobs in 2005, an increase of 500 over the year. Several consecutive years of high prices have stimulated both exploration and development. Employment levels have nearly bounced back to 2002 levels after a steep drop in 2003. Mineral mining employment also had a good year in 2005, adding 200 jobs.

- ★ **Construction.** The second most robust performance in 2005 came from the construction industry, which added 900 jobs to a job count of 18,600; for an annualized growth rate of 5.1 percent. In terms of dollars spent on construction, the oil and gas industry is the dominant contributor, although it is difficult to precisely translate dollar expenditures into job creation.

- ★ **Seafood Processing.** Due largely to the third-largest salmon catch ever recorded for Alaska, the seafood processing industry added 100 jobs and grew for the third consecutive year in 2005. The 8,600 jobs in 2005 were the most since 1999. Despite the relatively modest growth in jobs, wages over the first three-quarters of the year were up an impressive 8.1 percent, suggesting that the processors may have paid more in overtime for their existing workers to handle the catch.



- ★ **Retail.** Retail trade added 900 jobs for an annualized growth rate of 2.6 percent in 2005.
- ★ **Health Care.** In very few industries could 900 new jobs and an annualized growth rate of 3.6 percent be considered a slowdown. Those numbers for health care in 2005, however, do suggest that after years of dramatic expansion, the industry may be approaching equilibrium and that less heady growth lies ahead.
- ★ **Leisure & Hospitality.** Historically, most of the growth in the leisure and hospitality sector has come from food services and drinking places (restaurants and bars) and accommodations (hotels, inns and lodges). In 2005, though, those two categories accounted for just 500 of the 1,000 new jobs; the other 500 were generated by employers in the category called arts, entertainment and recreation, which is not separately published. This category represents less than one percent of the state's 2003 total GSP.
- ★ **Government.** After trimming 200 government jobs in 2004, the state saw a small increase of 100 jobs in 2005. Federal government employment fell by 200 jobs despite a high level of spending in the state and significant activity at military installations. State and local government both saw modest growth in 2005, and in both cases, the education component accounted for all the new jobs.

In 2004, employment earnings reported by AKDOL is estimated at \$11.6 billion, up slightly from inflation-adjusted \$11.1 billion in 2003, and up approximately \$1.9 billion from 2000.

Figure 10 shows average monthly employment and earnings totals by year, and the corresponding government and private ownership contribution.

Figure 10 - Average Monthly Employment Earnings.

	2001		2002	
	Average Monthly Employed	Total Earnings (in Millions)	Average Monthly Employed	Total Earnings (in Millions)
Total Government	76,881	\$2,937.6	78,798	\$3,095.2
<i>Federal</i>	16,815	\$844.0	16,761	\$880.0
<i>State</i>	22,961	\$866.0	23,847	\$933.0
<i>Local</i>	37,105	\$1,228.0	38,190	\$1,282.0
Private Ownership	211,059	\$7,351.0	213,488	\$7,632.0
Total Industries	287,940	\$10,289.0	292,286	\$10,727.0

	2003		2004	
	Average Monthly Employed	Total Earnings (in Millions)	Average Monthly Employed	Total Earnings (in Millions)
Total Government	79,697	\$3,205.5	79,064	\$3,298.4
<i>Federal</i>	17,105	\$933.0	17,175	\$992.0
<i>State</i>	24,156	\$955.0	24,059	\$965.0
<i>Local</i>	38,436	\$1,317.0	37,830	\$1,341.6
Private Ownership	217,179	\$7,886.0	222,321	\$8,339.4
Total Industries	296,876	\$11,091.0	301,385	\$11,637.9

source: www.labor.state.ak.us/research/ee/ee04.pdf

The data describe the increase in employment earnings and shows that the composition remains steady, with government contributing about 28 percent in 2004, and private ownership the rest. As new resource development opportunities emerge, new businesses will help to create a more competitive and diverse economy. The data further describes the breakout of total government earnings by federal, state, and local governments. Local government earnings in 2004 comprise more than 40 percent of total government earnings in Alaska.

Per capita income is used to describe how well an economy is doing since it includes income created by work and investments as well as transfer payments. According to AKDOL, inflation adjusted per capita income has changed little from 2000-2004, and since 1990, has grown by one half of one percent per year. Overall, Alaska still outperforms the national average for Per Capita Personal Income.

Agriculture

Alaska's agriculture industry is a high cost industry with a declining relative market share in Alaska. As a component of the Gross State Product (GSP), the agricultural industry comprises just above one percent. However, the industry exhibits dynamics worth noting.

Alaskan farmers are finding it difficult to compete against lower cost imported products from subsidized suppliers elsewhere. While subject to the same market forces in terms of costs as other farmers, Alaska farmers have only the single advantage of being close to the market in Alaska, allowing them to demand significantly higher commodity prices for like commodities elsewhere. Prices received for feed grains (barley and oats), hay, potatoes, and milk all were higher in Alaska than in the rest of the U.S. Farmers in Alaska have enjoyed an ability to be price setters in some commodity markets, instead of price takers as elsewhere. However, they often rely upon limiting their own production to maintain these prices. Despite the seemingly favorable (inverted) pricing structure, farmers have been unable to respond to increasing market demand with increased production, due mostly to the lack of a properly functioning in-state commodity marketing mechanism. The existing wholesale and retail consumer market is increasingly demand responsive, and it acquires agricultural goods from low cost suppliers elsewhere.

Figure 11

2004 Alaska and U.S. Prices Received for Selected Commodities

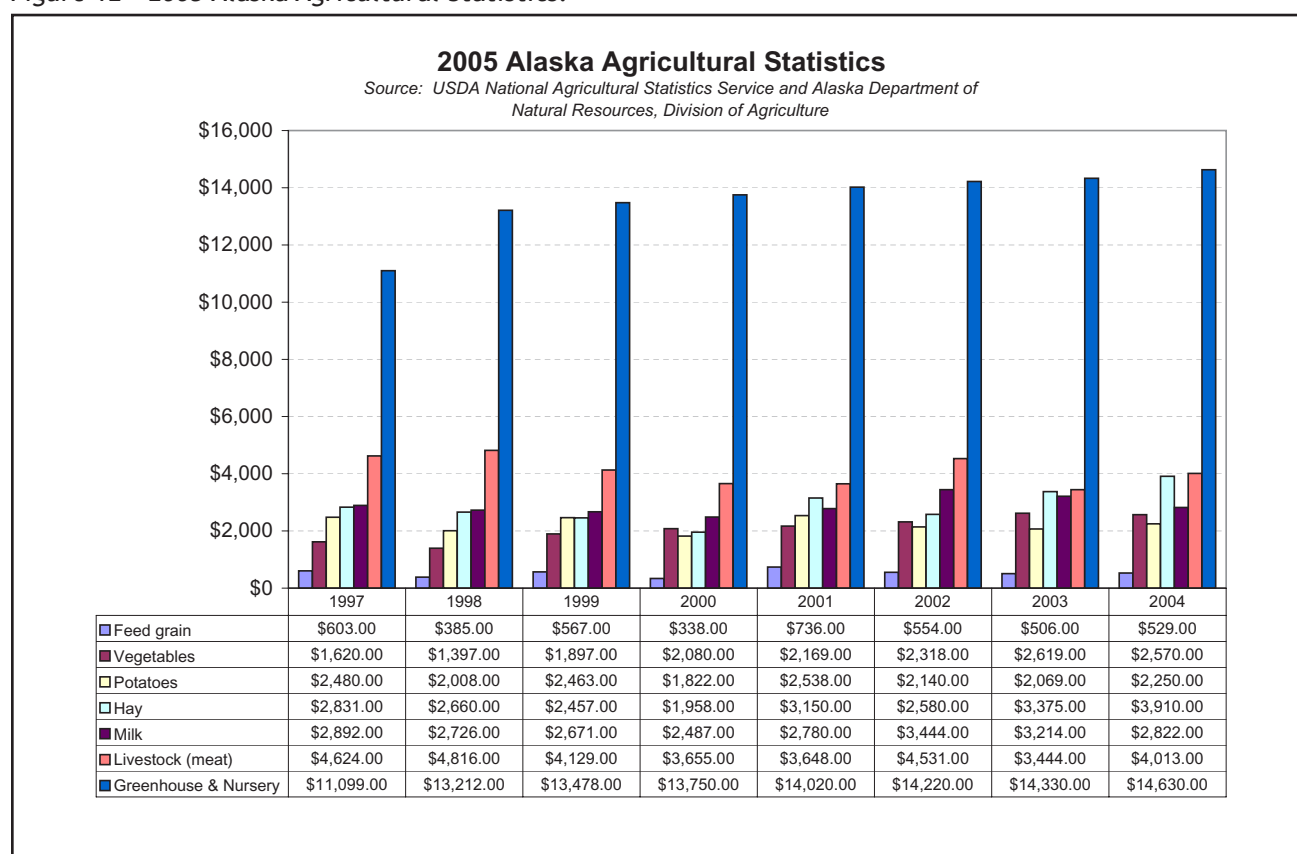
(Source: Alaska Agricultural Statistics, 2005)

	Alaska Price	U.S. Commodity Cash Price
Barley (bushel)	\$3.45	\$2.48
Hay (ton)	\$230 .00	\$89.70
Potatoes(cwt)	\$19.60	\$5.62
Milk	\$20.16	\$16.13
All Beef Cattle (cwt)	\$90.00	\$85.90
Hogs (cwt)	\$73.00	\$49.30

Prices received for livestock have been generally higher than elsewhere, but not to the degree as other commodities: This is due to the need for instate processing which tempers the ability of farmers to set prices. Livestock production has not expanded because livestock farmers are not able to set their own prices as freely as other Alaska commodity producers, and also because they are subject to the full cost of unsubsidized feed sources in Alaska. This has greatly hampered the ability of the conventional livestock industry to expand, in particular milk production. Additional problems of competition in the real estate market for farmland, and also the ban on the import of bovine herd replacement from Canada due to the Bovine Spongiform Encephalitis (BSE) have forced farmers to assume large amounts of debt without commensurate cash flow.

- ★ Cash receipts are payments to farmers for their goods from farm marketing, excluding aquaculture. Cash receipts have ranged between \$26,469,000 in 2000 to \$31,164,000 in 2004 according to *Alaska Agricultural Statistics, 2005*. The three highest commodity cash receipts include greenhouse and nursery crops (\$14,630,000) for almost half of the sector's output in 2004, followed by a distant second hay crop, at \$3,910,000. There has been a significant increase in cash receipts for hay in the current year. The increase noted is in part because hay is in large part pet food for the large recreational horse population in Alaska; by some estimates, the horse population exceeds 20,000 horses. In addition, hay is a feed for livestock

Figure 12 - 2005 Alaska Agricultural Statistics.



and milk production instate. In third place is milk, at \$2,822,000 in 2004, significantly lower than in 2002 at \$3,444,000. Thus, the product mix of agriculture is changing, in particular the parts of the industry that are most subject to market forces, illustrated in particular by the hay and milk markets. Further changes may be occurring in the coming year, as expected declines in dairy production may cause price movement of hay.



Direct marketing has provided the largest profitable outlet for farmers, including farmers markets and direct sales of commodities to other end users, like horse owners. However, reliance on this market limits production and the achievement of economies of scale. Most farmers in Alaska are part-

time or hobby farmers. This provides a private subsidy to individual operations, but limits expansion ability. The lack of an operating wholesale market sector accessible to Alaska producers may be one of the biggest limiting factors for most commodities.

According to economists from the University of Alaska, Fairbanks, there currently is interest by several individuals to make use of industrial byproducts as inputs to agricultural production. As such, the main benefit is the ability to use waste products like waste heat or sewage sludge at no cost or a negative cost to substitute for expensive crop inputs, or to provide other advantages for producing agricultural goods. Depending on the ability of these businesses to profitably operate and for the agricultural enterprise to be an economically functional part of the overall business, this may be a major source of expansion for the agricultural industry in Alaska, depending on the ability of these businesses to access wholesale markets.

Additional interest is evident in new uses and crops, like Canola for biodiesel, and berry crops. Research into the health and other benefits like nutraceuticals for Alaska grown crops including wild products may yield niche market opportunities for some producers.

CHALLENGES FACING THE AGRICULTURAL INDUSTRY

The largest challenge facing Alaska agriculture is the lack of capital and cash flow in the sector for expansion. Both individual producers, as well as development of necessary infrastructure have depended on the influx of capital from sources other than agriculture. The main sources of capital have included individuals (farmers) as well as government entities. The farmers themselves are generally unable to provide capital for their own expansion except from sources other than farming (a job or career, other business, retirement benefits, inheritance, or other individual source of capital). Government capital has in the past been disbursed with conditions that may prove to be burdensome and often provides inappropriate incentives for production and prices.



For example, State agriculture programs in the last 30 years, especially in conjunction with the Agricultural Revolving Loan Fund, have mainly focused on providing loans for individual farmers to engage in specific activities, like land clearing, construction of facilities, or production loans. Loan programs (often in conjunction

with “projects” like the Delta Barley Project and the Point McKenzie Dairy Project) resulted in activities like land clearing, facility construction, machinery purchase, and initial production taking place, but with resulting market failure forcing many farmers to be bankrupted, and the State foreclosing on and/or disposing of assets (including land and chattel) at prices below loan rate.

In addition to loans to farmers for developing farmland, acquiring business assets, and production, the State has also financed several critical infrastructure projects including the Mount McKinley Meat and Sausage Plant, the Matanuska Maid Creamery in Anchorage, and the Alaska Farmers Elevator in Delta Junction. These businesses have formed an important nucleus of needed services for the farm industry statewide. However, without commensurate market development, farmers are unable to compete in wholesale and retail markets with subsidized imports.

The State of Alaska's model of agricultural development has resulted in a relatively large asset base, but little production. Currently, the United States Department of Agriculture (USDA) Farm Services Agency and the Risk Management Agency have activated parts of the U.S. production subsidy system (on which U.S.

farmers depend) in Alaska. This is the same system that provides competition to the relatively unsubsidized Alaska production system by American farmers. By depending on subsidies that reward production instead of debt acquisition, American farmers in other



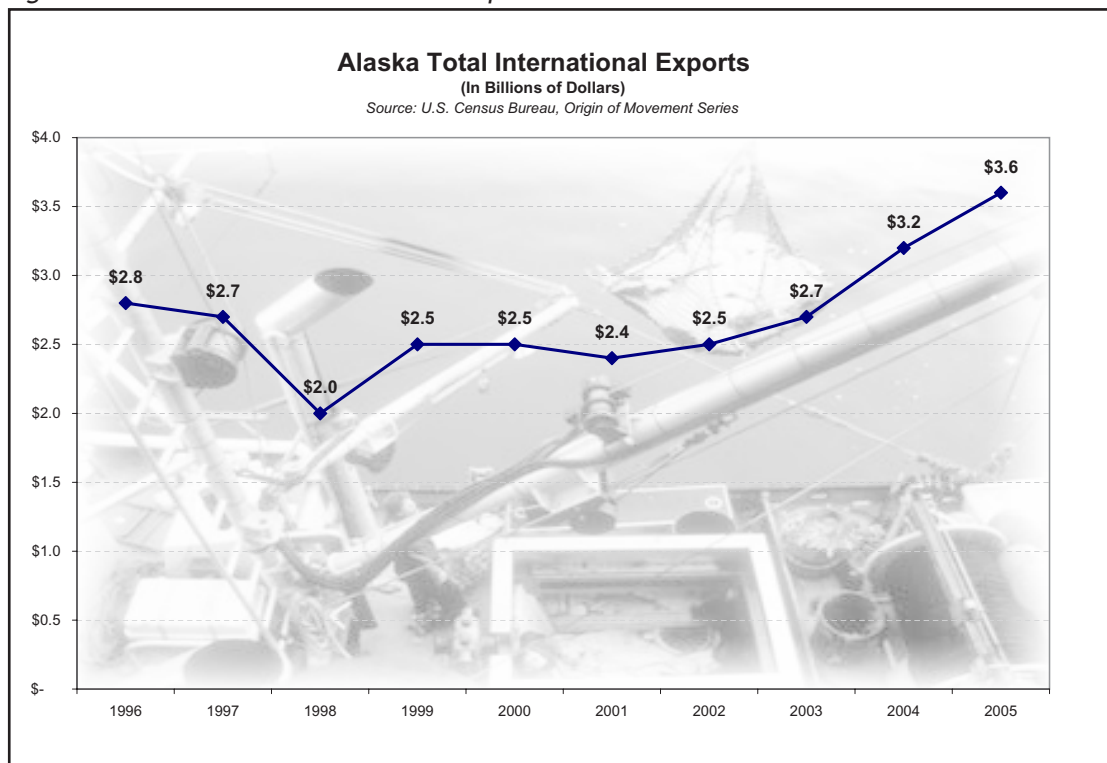
states have been able to focus on lowering production costs through economies of scale and technological improvements. The subsidies to commodity producers in the U.S. have lowered feed costs to livestock producers as well as providing incentives to stimulate new industries like ethanol and biodiesel plants. The challenge to Alaska's agriculture industry may be to emulate the national model of successful agricultural development. The ability of the State to encourage production subsidies in concert with federal agencies may be pivotal in further the development and survival of an Alaska agricultural industry.

The challenge of market access for Alaska farmers may depend more and more on their ability to use appropriate production subsidies to compete with the rest of the U.S. agricultural producers. This will allow Alaska farmers to compete in existing wholesale and retail markets in Alaska, instead of being limited to a declining market share in an expanding state market. Opportunities are being presented to farmers and others who are interested in Alaska agriculture. It is important that these opportunities be given a chance, from revision of the 2007 Farm Bill in the U.S. Congress, which determines U.S. agricultural policy for at least the next five years to new and improved crops and technologies for production in Alaska agriculture.

Alaska's Export Market

In 2005, Alaska's international exports totaled \$3.6 billion or 13.8 percent above 2004 totals. Although Alaska's export market comprises only about 0.4 percent of the U.S. total, international trade is one of the corner stones of the Alaskan economy. International Exports have been steadily climbing since 2001. In 2005, exports increased by \$435 million over 2004, and almost 50 percent from 2001 levels. Figure 13 shows Alaska total international exports since 1996.

Figure 13 - Alaska Total International Exports.

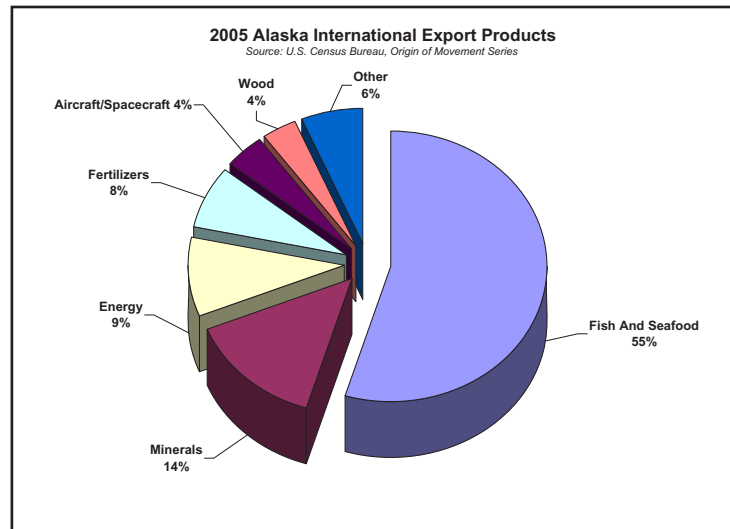


In 1998, Alaska's natural resource exports declined by double-digit percentages. The export total precipitously dropped more than 25 percent to \$2 billion. The timber industry was devastated by mill closures and the seafood market was being severely challenged by farmed fish. Alaska's export markets have nicely recovered over the last eight years to finish 2005 at levels about 80 percent higher than 1998.

KEY EXPORTS

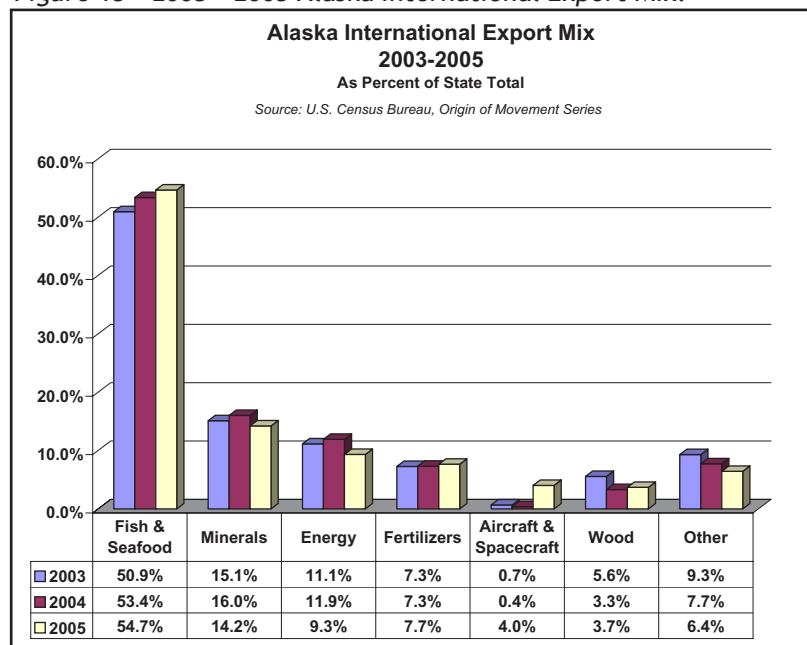
The total of the top 25 commodities makes up almost 95 percent of the state's export. (See Figure 14.) Substantial improvements in seafood sales are responsible for a majority of the recent gains. For example, in 2005, Alaska exported about \$1.9 billion in seafood internationally, \$278 million more than 2004, and \$568 million higher than 2003 levels. In 2005, seafood comprised almost 55 percent of exports. Other key exports include: Minerals, Energy, Fertilizers, Aircraft/Spacecraft, and Wood. (See Figure 14; for full listing of commodities, see Appendix A.)

Figure 14 - 2005 Alaska International Export Products.



U.S. Census data show Alaska's dynamic export mix. Figure 15 shows the mix from 2003 -2005. According to the data, Fish & Seafood has increased as a percentage of the state's total since 2003, while Minerals and Energy have declined. Fertilizers have inched up, while Aircraft & Spacecraft has increased by almost 3.5 percent from last year. Wood has also seen a modest increase from 2004, but still remains almost 2 percent points below 2003 levels.

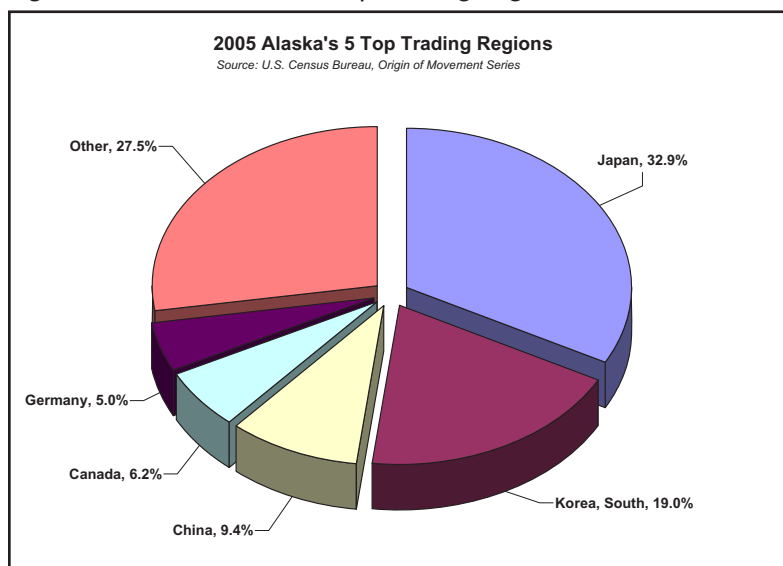
Figure 15 - 2003 - 2005 Alaska International Export Mix.



EXPORT REGIONS

Alaska's top five trading partners represent more than 70 percent of the state's total share. These top five are Japan, Korea (South), China, Canada and the Federal Republic of Germany (for a full listing of the top 25 partners see Appendix B). Figure 16 shows the five partners and their respective share of the state's total.

Figure 16 - 2005 Alaska's 5 Top Trading Regions.



Japan continues to be Alaska's largest trading partner, buying almost \$1.2 billion dollars in products last year. Japan makes up 32.9 percent of the state's total, down 0.8 percent from 2004's

share of 37.7 percent. Seafood sales to Japan showed the largest growth, rising \$88 million or 11 percent to a total of \$827 million. Japan's other major purchases included \$203 million in energy, \$68 million in minerals and \$62 million in wood products.

Korea remains Alaska's second leading trading partner, up almost 18 percent in 2005 from last year. Korea purchased \$684 million in goods, primarily seafood, fertilizer, minerals, energy and wood products.

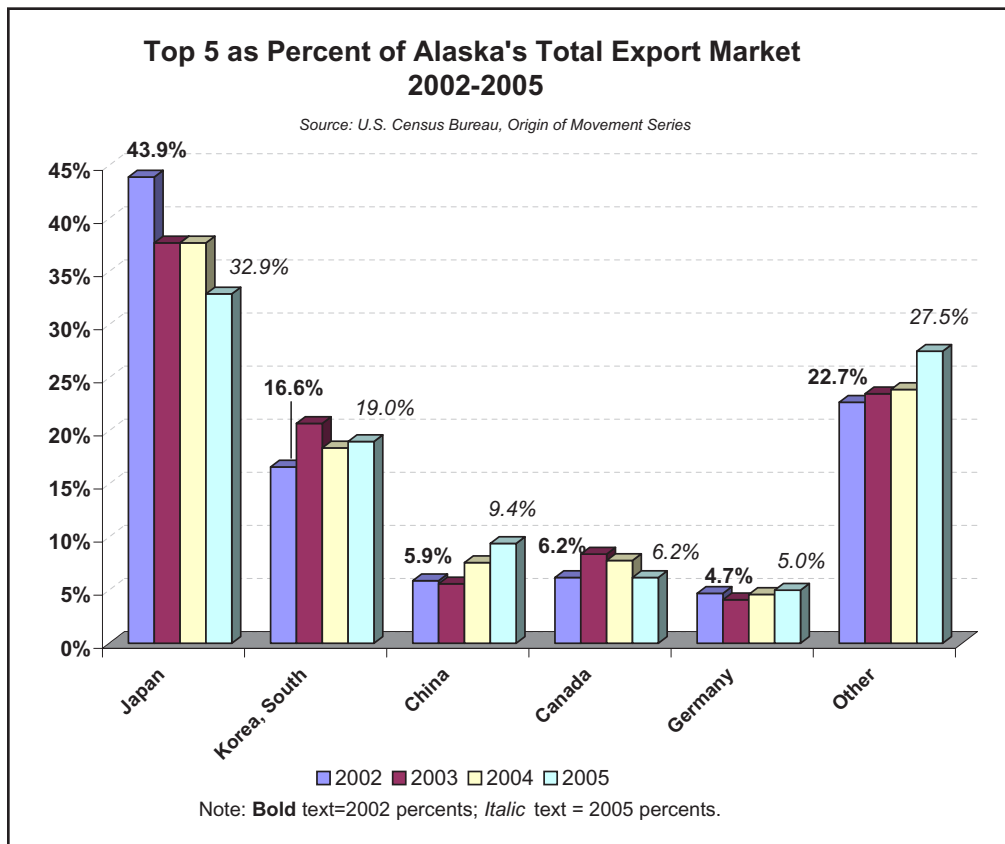
China surpassed Canada for third after more than doubling its purchase of Alaska's products in the last two years, exhibiting a percent change of almost 40 percent from 2004-2005. China recorded \$337 million in exports from seafood, fish meal, minerals, fertilizers, and wood.

Canada exhibited negative 10 percent change from 2004 to 2005; thus, falling behind China as a percent of the state's export market. Canada bought a total of \$222 million of mainly minerals, seafood, and energy products from Alaska.

Germany rounds out the top five at \$180 million, with a majority of purchases coming in the seafood and minerals sectors. On a year to year percent change, Germany increased by almost 23 percent.

Figure 17 shows Alaska's top five trading partners as a percent of Alaska's export market from 2002-2005. It's interesting to note that as a group, the top five have decreased in market share from 77.3 percent in 2002 to 72.5 percent in 2005.

Figure 17 - 2002 - 2005 Top 5 as Percent of Alaska's Total Export Market.



CHALLENGES FACING THE ALASKA EXPORT MARKET

Alaska's export market occupies a unique position in the Alaskan economy. The export market faces international and in-state challenges. From the international perspective, the export market represents Alaska, its products, people and culture. In order to maintain its position as a world player, Alaska must continue to develop and nurture international relationships with complimentary markets such as China. Concurrently, Alaska must grow new markets within emerging economies in order to lay the foundation for long-term business associations like those presently enjoyed with Japan, Korea and China.

From an in-state perspective, the export market is subject to the performance of revenue-producing industries within the state. The challenges faced by the major industries (oil and gas, mining, seafood, etc.) and their ability to supersede these challenges translates into strength or weaknesses reflected in the export market. For example, since 1998 the seafood industry has undergone significant changes to compete against improved aquaculture technology in other countries and to better manage our fisheries. If Alaska seafood is unable to compete with farmed fish or its technology lags it may lose its prominent place in the Alaska export market.

Alaska Native Corporations

Native firms continue to experienced positive growth in revenues, dividends paid to shareholders, and total assets. While total corporation employment (Native and non-Native) declined slightly, the percent of Native employees grew. Each year a growing number of

Figure 18 - Total Revenues for Alaska Native Regional Corporations.

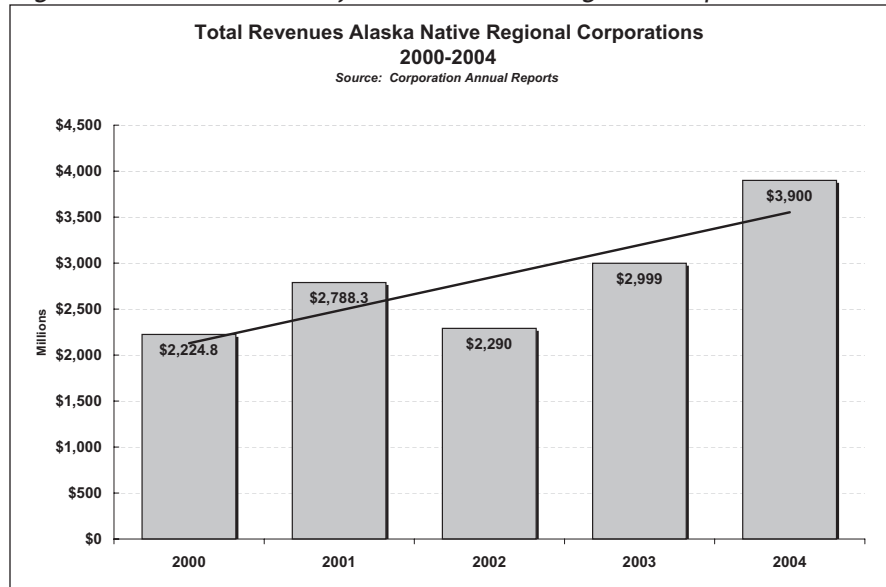
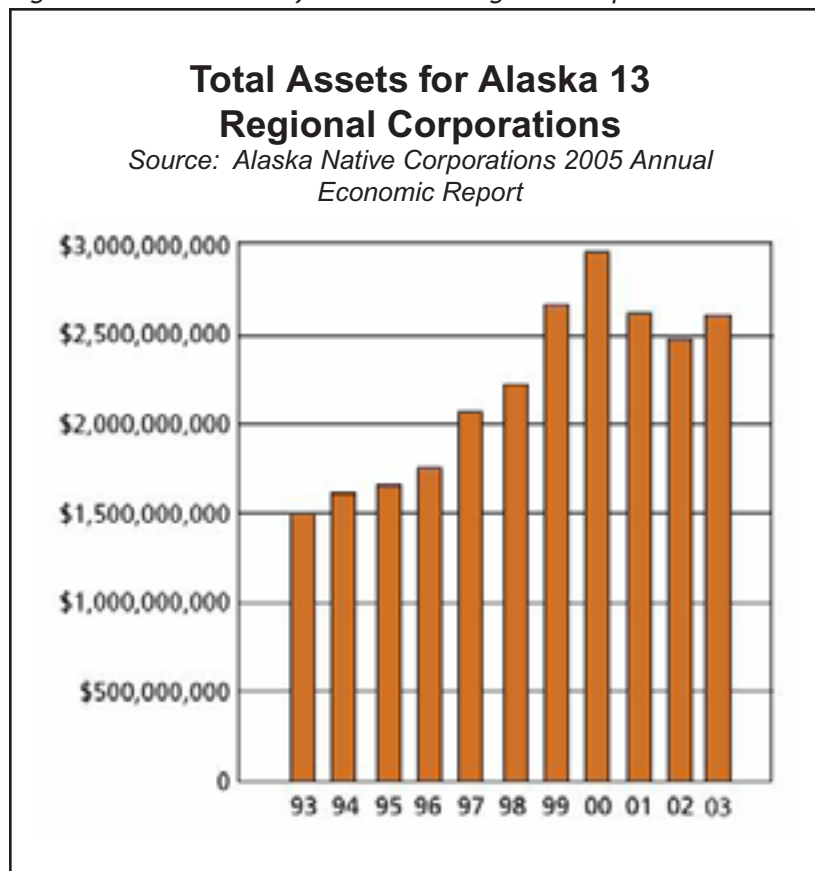


Figure 19 - Total Assets for Alaska 13 Regional Corporations.



Native corporations can be found among the top 49 employers in the state.

A 2005 Association of ANCSA Regional Corporations report lists assets totaling \$2.8 billion for the 13 regional and 28 village corporations during 2003 (most recent data).¹

According to *Alaska Business Monthly*, the 13 Native Corporations' combined 2004 revenues of \$3.9 billion made up

¹ For the Native Corporations, 2004 is the most recent available data for total revenues. For all other financial data, 2003 is the most recent.

57 percent of total revenue for Alaska's top 49 companies. Figure 20 on the following page illustrates revenue growth by individual corporations over five years.

Figure 20

**Alaska Native Regional Corporations
2000 - 2004 Revenues (in Millions \$)**

	2000	2001	2002	2003	2004
Bering Straits Native Corporation	\$9.3	\$9.6	\$10	\$14	\$17
Thirteenth Regional Corporation	\$6.7	\$10.6	\$21	\$23	\$31
Calista Corporation	\$13.6	\$16.9	\$29	\$46	\$49
Doyon Limited	\$47.7	\$59.9	\$57	\$141	\$161
Aleut Corporation	\$79.2	\$79.3	\$61	\$49	\$64
Ahtna, Incorporated	\$62.0	\$62.7	\$66	\$70	\$85
Koniag Incorporated	\$22.4	\$31.0	\$71	\$109	\$148
Cook Inlet Region Incorporated	\$379.7	\$711.0	\$95	\$83	\$85
Sealaska Corporation	\$72.1	\$144.6	\$170	\$177	\$152
Bristol Bay Native Corporation	\$132.4	\$150.1	\$182	\$187	\$260
NANA Regional Corporation	\$176.2	\$172.7	\$202	\$263	\$331
Chugach Alaska Corporation	\$219.8	\$278.1	\$354	\$546	\$700
Arctic Slope Regional Corporation	\$1,003.7	\$1,061.8	\$974	\$1,290	\$1,300
TOTAL	\$2,224.8	\$2,788.3	\$2,290	\$2,999	\$3,900

Source: Alaska Business Monthly

In 2004, Native companies paid out \$78 million in dividends to their shareholders and employed 10,541 people in Alaska, 25 percent of who were Alaska Natives. Charitable contributions and scholarships exceeded \$10 million. Alaska Native Corporations continue providing economic benefits through the Small Business Association's 8(a) program.²

Alaska Native Corporations and subsidiaries are not only impacting the economy at a state level, but are also key players at a national and global level. The corporations participate in a wide variety of industries, including hospitality, government contracts, and high tech, including many others. For example, a recent 2005 Western Technology report (Figure 21 on the following page) shows Alaskan Native Corporations as the top three of the Top 25 8(a) companies in the nation providing government IT integration solutions. Alaskan Native Corporations took a total of six spots on the list, which is ranked by revenue.

2 The Small Business Association (SBA) 8(a) program is designed to assist companies owned by socially and economically disadvantaged individuals. It allows a company to partner with others and to receive sole - source contracts for up to \$3 million for goods and services and \$5 million for manufacturing. Recent legislation was past exempting Alaska Native companies from these sole-source caps.

Figure 21

Washington Technology Top 25 8(a) Companies

Corporation*	Total IT Revenue	Rank 2003	Rank 2004
Chenega Corp.	\$138,701,017	1	1
TKC Communications Inc.	\$83,033,847	3	2
ASRC Federal Holding Co.	\$81,622,285	4	3
Paradigm Solutions Corp.	\$71,700,687	5	4
S&K Technologies Inc.	\$57,708,000	2	5
Chugach Alaska Corp.	\$56,236,000	7	6
Eagle Group International Inc.	\$54,322,054	6	7
Military Personnel Services Corp.	\$39,630,275	--	8
Countertrade Products Inc.	\$36,716,382	--	9
Wyandotte Net Tel	\$36,678,312	--	10
Eyak Technology LLC	\$30,120,115	17	11
Merlin Technical Solutions Inc.	\$27,280,357	--	12
Dynamic Systems Inc.	\$26,338,312	--	13
Bowhead Support Services Inc.	\$25,252,000	12	14
Prologic Inc.	\$24,583,547	--	15
CDO Technologies Inc.	\$23,909,401	13	16
Access Systems Inc.	\$22,115,032	--	17
Frontier System Integrators LLC	\$19,449,455	19	18
Sterling Computers Corp.	\$17,618,047	--	19
Innovative Technology Application Inc.	\$16,288,678	--	20
Catapult Technology Ltd	\$16,218,604	--	21
Suh'dutsing Technologies LLC	\$13,206,045	--	22
Epsilon Systems Solutions Inc.	\$13,190,207	--	23
Masimax Resources Inc.	\$12,500,690	--	24
Engineering Services Network Inc.	\$11,161,257	--	25

*Alaskan Native Corporations/Subsidiaries are highlighted

Sources: Washington Technology, Federal Sources Inc.

A 2004 report by the Native American Contractors Association found 13 Alaska Native Corporations with 8(a) contracts provided \$27 million in dividends and more than \$5 million in cultural program donations. These same companies paid more than \$141 million in payroll within Alaska while employing 27,800 people.

Efforts such as these are having a positive effect not only on the Alaska economy but within the Native community as well. A recent Institute of Social and Economic Research (ISER) report *Status of Alaska Natives* cites a number of positive trends among Alaska Natives. For example, Native Americans own a larger share of private businesses in Alaska than in any other state - approximately eleven percent. The for-profit regional and village Native corporations

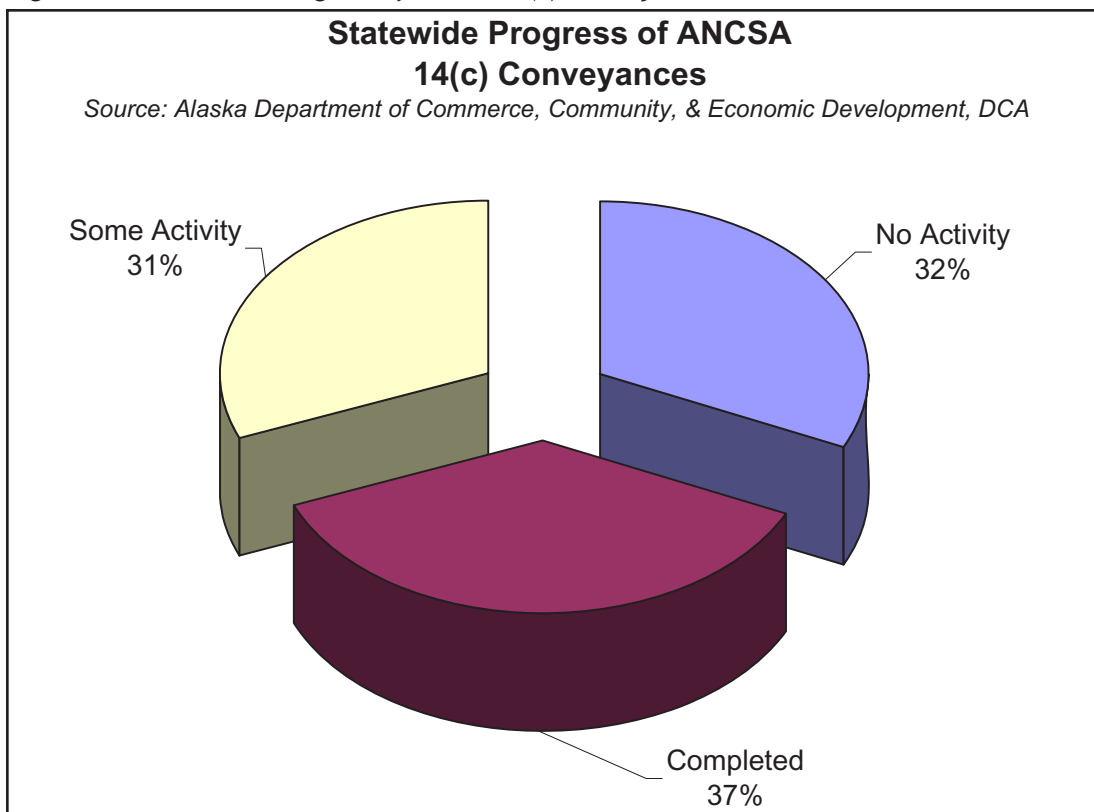
are among the most prominent Alaskan-owned businesses, while the non-profit Native corporations are among the largest employers in the state, comprising ten of the 100 largest private businesses in Alaska.

CHALLENGES FACING NATIVE CORPORATIONS

Alaska Native people's leadership continues to stress the importance of completing land conveyances agreed to over thirty years ago under the Alaska Native Claims Settlement Act (ANCSA). Through ANCSA, Native Alaskans retained approximately ten percent or 44 million acres of the land around the state. However, some Native Corporations such as Doyon, Limited still await as much as sixteen percent of their lands to be conveyed. Further delay in land conveyance makes it impossible to undertake further economic development until ownership issues are resolved.

The ANCSA 14(c) planning effort is a high priority activity for the Division of Community Advocacy's Land Management Program. The settling of 14(c) claims and survey of the land will allow Native village corporations to convey land to individuals, businesses, non-profit organizations, cities, and the State. These conveyances will provide 14(c) land claimants with the land interest needed to secure funding for development projects. Many villages are now at the point of addressing and completing the 14(c) process. Figure 22 shows the overall statewide progress on ANCSA 14(c) conveyances.

Figure 22 - Statewide Progress of ANCSA 14(c) Conveyances.



Regional Native Corporations in Alaska

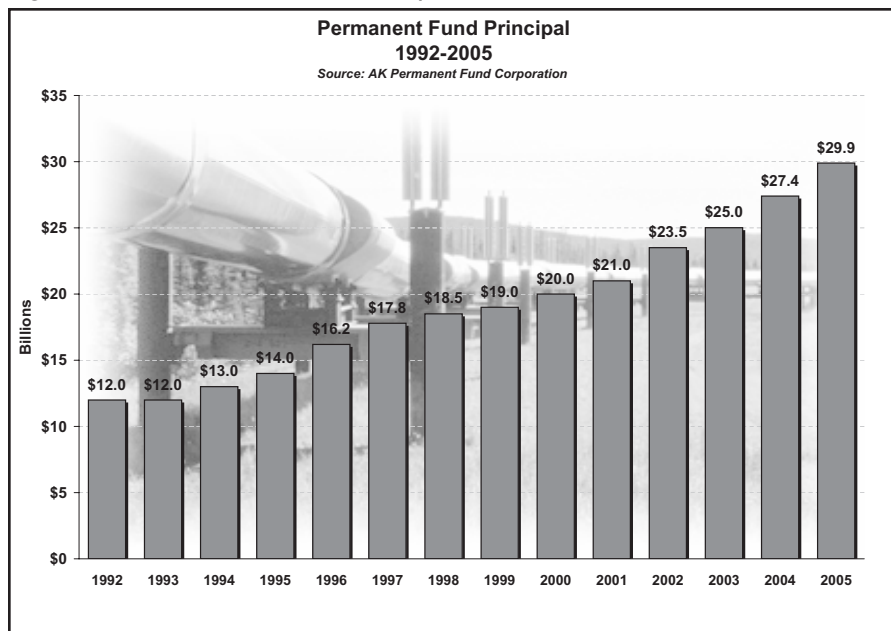


State economists point to a recent shift in jobs toward service and hospitality-related fields that may help to explain why Alaska Natives' total buying power has not significantly improved; they cite job losses in the oil, seafood, and timber industries that typically pay higher wages. Meanwhile, issues of high unemployment, low cash income earnings per individual, and under-representation in professional, managerial, and technical positions pose ongoing challenges within Alaska's Native population.

In 1986, legislation passed that allowed Alaska Native Corporations (ANC)-owned businesses to participate in the Small Business Administration's (SBA) 8(a) program—one of the federal government's primary means for developing small businesses owned by socially and economically disadvantaged individuals. Recently, a number of high-dollar, sole-source 8(a) contracts awarded to ANC firms have attracted the attention of Congress and the media. A report by the U.S. Government Accountability Office (GAO) in the Spring of 2006, identifies (1) trends in the government's 8(a) contracting with ANCs from fiscal years 2000 to 2004; (2) the reasons agencies have awarded 8(a) sole-source contracts to ANC firms and the facts and circumstances behind some of these contracts; and (3) how ANCs are using the 8(a) program. In addition, the report evaluates SBA's oversight of 8(a) ANC firms, given these companies' unique procurement advantages. The GAO has made recommendations to SBA on actions that can be taken in revising its regulations and policies as well as ways to improve practices pertaining to its oversight of ANC 8(a) procurements. It is unclear at this point how changes in SBA's policies will affect the ANCs' revenue source (via sole-source contracts/obligations) in the future.

Alaska Permanent Fund

Figure 23 - Permanent Fund Principal 1992 - 2005.

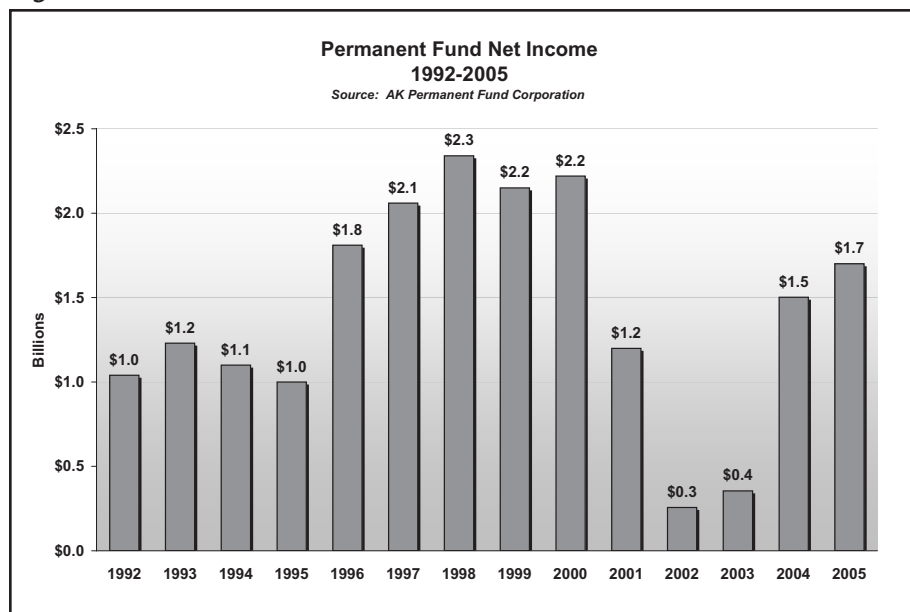


The Alaska Permanent Fund and the Permanent Fund Dividend paid to Alaskans are unique to the state and are an indication of economic robustness and vitality. The Alaska Permanent Fund is managed by the Alaska Permanent Fund Corporation (APFC), while the Permanent Fund Dividend program is managed by the Permanent Fund Dividend Division of

the State of Alaska. Permanent Fund dividend earnings paid to Alaska since 1982 exceed \$13 billion. The number of Alaskans who were eligible for and received dividends in 2005 decreased for the first time since the program's inception by 2,773. In 2005, 594,078 recipients each received a dividend for \$845.

Permanent Fund net earnings posted healthy growth during 2005 climbing from \$27.4 billion in 2004 to \$29.9 billion [Figures 23 and 24].

Figure 24 - Permanent Fund Net Income 1992 - 2005.



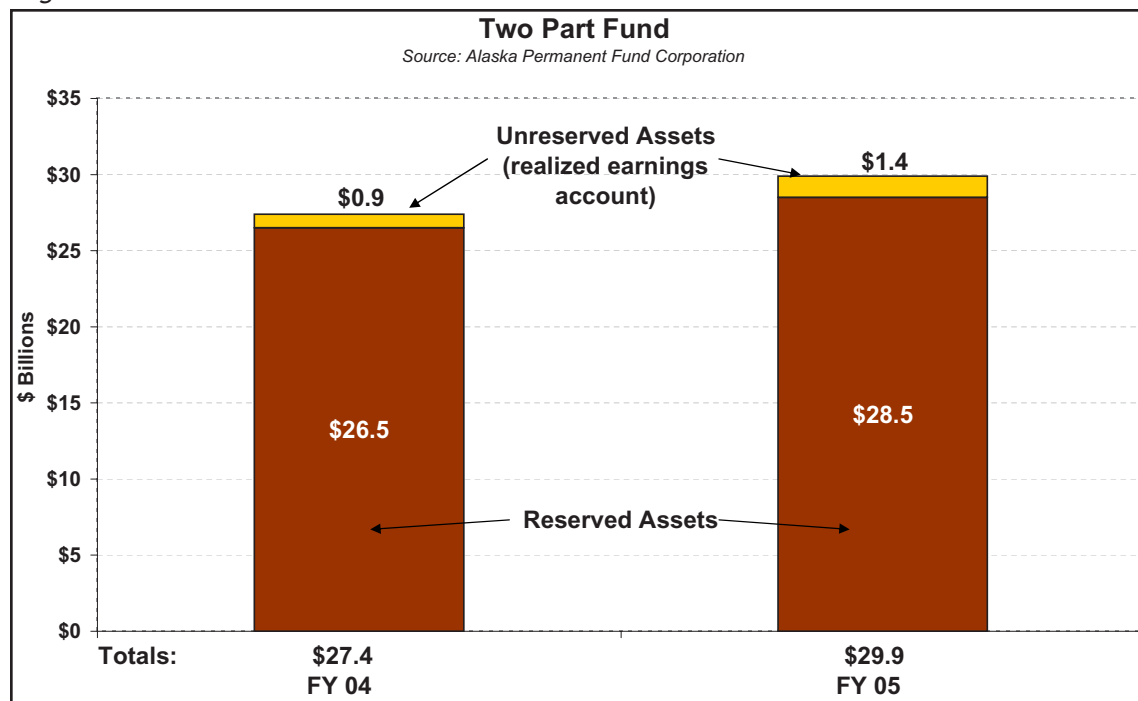
Alaska's Permanent Fund is among the top 100 largest investment funds in the world. In the U.S., the fund is larger than any endowment fund, private foundation, or union pension trust.

The relative economic importance of the Permanent fund dividend depends largely on location. For example, of total cash from all sources, dividends comprise between six percent and eight percent of cash in urban Alaska and between eight percent and 21 percent in rural Alaska, with most rural dividend spending taking place in urban Alaska.

The Alaska Permanent Fund is a two-part fund made up of Reserved Assets (principal) and Unreserved Assets (realized earnings). The reserved portion of the fund is invested permanently and cannot be spent without amending the State constitution. As of June 30, 2005, the Fund included \$28.5 billion in reserved assets and \$1.4 billion in unreserved assets for a total of \$29.9 billion in net assets. Fund analysts attribute changes in dollar and percent values of assets between 2004 and 2005 to continued improvements in financial markets, and the addition of mineral revenues first added to the Fund in 2004. Also, the increase in realized earnings balance from fiscal year 2004 to fiscal year 2005 reflects modest earnings in fiscal year 2005 and a lower annual distribution again this year.

Figure 25 below describes Net Assets: Two Part Fund (ending June 30, 2005).

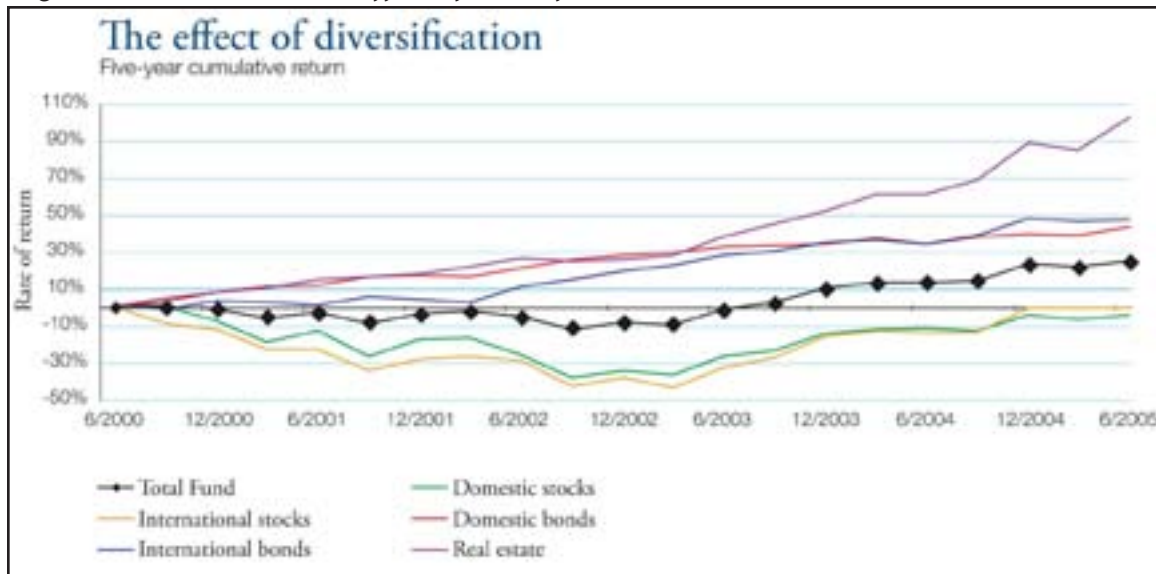
Figure 25 - Permanent Fund Reserved and Unreserved Assets.



DIVERSIFICATION

A diversification investment strategy is essential to the Fund's performance and helps protect its value while providing for steady growth and distributions. The Fund portfolio comprises publicly traded stocks, private equities, bonds, and real estate. Figure 26 describes the effect of diversification from 2000 - 2005.

Figure 26 - Permanent Fund Effect of Diversification.



Source: Alaska Permanent Fund Corporation

CHALLENGES FACING THE PERMANENT FUND

The Alaska Permanent Fund Corporation's long-term goal is to achieve a real rate of return of five percent per year for the Fund. Perhaps the greatest challenge facing the APFC in today's highly volatile global markets is to anticipate markets in order to make timely and effective investment decisions.

Construction

The construction industry has been expanding since 1989 and well into 2005. A recent report by the Institute of Social and Economic Research (ISER) for the Association of General Contractors of Alaska estimates total construction spending in Alaska in 2005 at \$5.9 billion, up 11 percent from the previous year. Approximately two-thirds of the money, or \$3.8 billion, comes from the private sector and the remaining third, \$2.1 billion, from public funds.

Figure 27

Alaska Construction Spending 2005 Forecast (Millions \$)	
Total	\$5,940
Private	\$3,835
Oil & Gas	\$1,835
Mining	\$300
Other Basic Industry	\$50
Residential	\$700
Commercial	\$250
Hospitals	\$350
Utilities	\$350
Public	\$2,105
Defense	\$600
Highways	\$400
Airports & Water Transport	\$330
Alaska Railroad	\$75
Denali Commission	\$100
Other Federal	\$300
Education	\$150
Other State & Local	\$150

Source: 2005 Alaska Construction Spending Forecast

The ISER report points out that Alaska's booming construction activity as measured by jobs, payroll, gross product, or total sales, is being fueled primarily by growing federal capital grants and spending by local government agencies. According to the Alaska Department of Labor (AKDOL), the construction industry grew by 500 jobs in 2005. By the end of 2005, permit valuation in Anchorage reached \$661 million, the second highest level since the 1986 economic bust.

No one project or segment of the industry dominated the construction industry. Military spending, healthy levels of commercial activity, increases in oil and mining related work, and other public spending kept local contractors busy. For example, government spending under the Defense Department approached \$600 million, or twice the long-term spending normally seen in Alaska. Federal spending accounts for 40 percent of construction project dollars in Alaska

compared with 15 percent nationwide. Industry analysts estimate this level of funding may peak around 2007 and begin to decline after that as funded projects are completed. However, this projection does not take into account new projects that may, and likely will, emerge in the coming years.

Statewide construction activity in 2005 accounts for nearly five percent of the Gross State Product (GSP). By boosting the economy, these projects result in a need for more housing, commercial buildings, and local infrastructure. The true economic contribution of the construction sector is probably significantly more when consideration is given to economic linkages tied to each construction dollar. For example, the materials and services needed to construct a highway will include rock, sand, and gravel, surface asphalt, operational equipment, business consultants, and bankers.

Figure 28 - Alaska Construction Jobs.



Construction jobs in Alaska have grown annually by 5.5 percent over the past five years. State labor economists project Alaska jobs to increase by nearly 43,000 during the ten year period spanning 2002-2012, with 2,500 (or almost 6 percent) of those jobs projected for the construction industry. Several proposed projects around the state could have a considerable impact on construction sector employment and earnings in the coming years. The biggest project is the proposed 3,500 - mile natural gas pipeline estimated to cost \$20 billion. Work on the pipeline is estimated to take two to three years to build, and calling for up to 8,000 skilled Alaska workers.

CHALLENGES TO THE CONSTRUCTION INDUSTRY

Construction activity in the state of Alaska is highly dependent on other industries' dynamics for momentum. The cost and availability of land can serve as a catalyst or impediment to construction opportunities. In some cases, cost of land ownership can cause a shift in where and when construction takes place. For example, In Anchorage, residential-related construction activity fell in 2005. The number of residential building permits in decreased from 1,812 in 2004 to 1,725 in 2005 and nearly 61 percent of the 2005 residential units were multi-family. According to AKDOL, as land costs in Anchorage continue to rise, an increasing share and possibly most of the region's residential activity is now shifting to the Mat-Su area.

The construction industry may also be faced with the challenge of a shortage of labor if major state-wide projects become a realization. As mentioned earlier, if the Gas Pipeline becomes a reality, the construction industry may be hard-pressed to fill the 8,000 construction jobs that will be needed to complete the project.

Mining

The mining industry in Alaska continued to prosper in 2005. According to the 2006 Report of the Mineral Commission, world metal prices have increased faster than most costs, thus making existing operations more profitable. It also stimulating additional exploration in the state. Exploration was very intense throughout Alaska with emphasis on the Pebble area near Iliamna, the Pogo area near Fairbanks, and Donlin Creek near Crooked Creek.



Kensington mine.

Alaska Department of Labor (AKDOL) analysis shows that mineral mining employment had a good year in 2005, adding 200 jobs. High prices for gold, silver and zinc have made operations at existing mines more profitable and hastened the development of future projects. Alaska's three biggest operating mines - Red Dog, Fort Knox and Greens Creek - account for nearly 75 percent of all wage and salary mining employment in Alaska. Between them, they added almost 100 jobs in 2005. The state's next biggest mining operation, the Usibelli coal mine, also grew slightly. Substantially more mining growth is expected

when both the Pogo mine near Fairbanks and the Kensington mine near Juneau begin operations in the next year or two. The industry enjoyed a record year for 2004 at a value of \$1.6 billion, significantly higher than for 2003 at \$1.06 billion, thereby setting the stage for continued improvement for 2005.

The total value of Alaska's mining industry, which had been level at roughly \$1 billion for the past few years, significantly increased in 2004 to approximately \$1,618.6 million, a \$551.2 million improvement from 2003. Industry totals for 2005 were not available at the time of this report. However, metal prices are expected to be higher for 2005 thereby providing an increased value for production, estimated to exceed \$1.4 billion. This may result in another record year for 2005, which is now forecasted to total approximately \$1.7 billion. Mining's total value is comprised of the value of production and expenditures for exploration and development (Figure 29).

Figure 29
Total Value of the Mineral Industry in Alaska

Year	Exploration (Expenditure)	Development (Expenditure)	Production (Value)	Total
1981	76.3	24.7	188.6	289.6
1982	45.6	41.6	196.4	283.6
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	552.7
1989	47.8	134.3	277.0	459.1
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	1,029.1
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	1,119.0
2000	34.9	141.7	1,106.4	1,283.0
2001	23.8	81.2	917.3	1,022.3
2002	26.5	34.0	1,012.8	1,073.3
2003	27.6	39.2	1,000.7	1,067.5
2004	70.8	209.1	1,338.7	1,618.6
2005	Na	Na	Na	1,703.0*
Total	930.2	13,923.8	2,163.2	17,017.2

Source: Alaska's mineral industry reports published annually by DGGs and OED.

*2005 Preliminary Forecast, not factored into Total.

Exploration budgets for the major projects in 2005 are estimated at over \$80 million. Ongoing construction at current mining projects equates to higher development expenditures for the industry for 2005, which is estimated at over \$300 million.

Alaska's mineral exports during 2005 were worth \$511 million, the highest post-ed revenues since 1996 and part of an increasing trend in export value begun in 2000 (Figure 30). Alaska's zinc ore concentrates again lead the way as the

Figure 30 - Alaska International Mineral Exports.



most valuable metal produced, grossing \$651.4 million or 60.5 percent of the total metals value. Following in order of value is gold at \$192.3 million, lead at \$120.6 million, and silver at \$113.1 million. (See Appendix A.)

Of Alaska's 365 million acres of land, 104 million acres are owned by the state government and most is open to mining. This is an area larger than the entire state of California (99,822,720 acres), the third largest state in the United States. Alaska's lands remain essentially unexplored. Alaska's 12 Native Corporations own an additional 44 million acres. Many of these corporations actively market resource development on their lands. Several of Alaska's greatest success stories, including the massive North Slope oil fields and the Red Dog mine, have come from partnerships between Native Corporations and international investors.

The following is a summary of current mine development activity. (Source: *Report of the 2006 Minerals Commission*)

Pogo: Teck-Cominco and Sumitomo continued with the \$347 million construction of the Pogo Mine near Delta Junction. This will be Alaska's next gold mine, with production to begin in early 2006. The underground mine will process ore at the rate of 2,500 tons per day and will produce approximately 400,000 ounces of gold per year for the 10 year mine life. The operating workforce will be 230 employees.

Kensington: Coeur Alaska, Inc. received its final permit in June of 2005 and began construction of this \$105 million underground gold mine in July. Located 45 miles north of Juneau, the mine would employ approximately 200 workers during its 10-year operating life. The Wetlands Permit, issued by the U.S. Army Corps of Engineers, was subsequently withdrawn by the Corps for further study, as the Corps prepared to defend the permit in lawsuits brought by environmental opposition groups. Construction is continuing at a reduced pace.

Rock Creek: NovaGold Resources continued engineering studies of the Rock Creek Project during 2005. Rock Creek is located seven miles north of Nome; its satellite deposit, Big Hurrah, is located 41 miles east of Nome. Equipment acquisition has begun, with project construction targeted for mid-2006 and production at a rate of approximately 100,000 ounces per year beginning in 2007. Project construction costs are forecast at \$40 - 50 million. Operating mine employment will be approximately 130 personnel.

Donlin Creek: Placer Dome and partner NovaGold continued with evaluation of the Donlin Creek gold deposit, located on Calista land in southwest Alaska, with a major drilling program consisting of 27,000 meters of drilling. A feasibility study is expected to be initiated in 2006. A three year permitting program is scheduled to commence in mid-2006, with construction to follow in about 2009 and production by about 2011. Construction costs are expected to be greater than \$1 billion and average employment during operation at about 400 employees.

Chuitna Coal: Pacrim Coal announced initiation of permitting for the Chuitna Coal project located west of Anchorage on the north side of Cook Inlet. Construction for this project is scheduled for 2007 with production in 2009. Construction costs will be approximately \$650 million. This will be a significant coal development for the state.

Pebble Copper: This is a large copper-gold deposit owned by Northern Dynasty, a Canadian company, and located north of Iliamna. Intense exploration drilling and baseline sampling activity continued during 2005. Announced resources are currently calculated at 31.3 million ounces of gold, 18.8 billion pounds of copper and 993 million pounds of molybdenum. Step out drilling to the east intersected very significant extensions to the ore body that could significantly enhance the project size and scope. Permit applications will be submitted once the company delineates the deposit extension, assesses its feasibility, and if necessary, redesigns the project.

Nixon Fork: This previous gold producer is located approximately 35 northeast of McGrath. The company has submitted permit applications and proposes to re-start of gold production in 2006 at the rate of approximately 45,000 ounces per year. This project is owned by St. Andrew Goldfields.

With increased metal prices, risk capital markets provided robust exploration budgets in 2005. Total expenditures are projected to approach \$100 million. There was activity in virtually every corner of the state. Notable projects include:

Arctic: NovaGold Resources announced significant drill intercepts from its exploration efforts during the year. This project is a significant polymetallic volcanogenic massive sulfide deposit in the Ambler District.

LMS: AngloGold USA Exploration Inc. announced a significant Pogo-type gold discovery between Pogo and Delta Junction. Significant gold intercepts were obtained from two parallel quartz vein systems.

Rainy Pass (Whistler): Kennecott Exploration (Rio Tinto) announced a significant copper-gold porphyry discovery at Rainy Pass. Metallurgical (flotation) testing shows that gold reports to the copper concentrate. Minor amounts of silver and molybdenum are present. Kennecott has identified eight other targets similar to the Whistler prospect in the surrounding area.

ER, Eagle, Beverly: AngloGold and Rimfire Minerals Corp. conducted exploration on these gold occurrences near Pogo. Significant gold values have been obtained from sampling and drilling.

MAN: Nevada Star Resources and Anglo American Exploration continued exploration on the large nickel, copper, platinum group complex located northwest of Paxson. Interesting sample results have been returned and continued exploration is scheduled.

Shulin Lake: Golconda Resources, Ltd., Shulin Lake Minerals Inc. and Shear Minerals, Ltd. Joint venture has identified numerous intrusive-style magnetic anomalies over the Shulin Lake diamond property near Talkeetna. Diamond drilling of 5 holes to test 3 of the anomalies returned one diamond fragment and indicated that the holes were drilled on the apron of a volcanic center. Three test pits taken from glacial till in the area returned visual observation of diamond indicator minerals. Exploration work will continue in 2006.

Lucky Shot: Full Metal Minerals of Vancouver announced discovery of a high grade extension to the historic Lucky Shot Mine located 40 miles north of Anchorage in the Willow Creek district. Six significant drill intercepts, including one 13.1 ft containing 7.04 ounces of gold per ton, were encountered.

Shotgun: TNR Gold Corp. announced that it received assay results from its 2005 six-hole drilling program on the new Winchester Gold Zone. The holes were more than 1000 meters apart and returned anomalous gold values warranting further drilling. The property is located about 280 miles west of Anchorage and 100 miles north of Dillingham in the Kuskokwim Mineral Belt.

Other: Exploration drilling, trenching and geochemical/geophysical mapping were conducted on a number of other new or historic projects in the state. The pace of exploration during the year will reach near record levels.

CHALLENGES FACING THE MINING INDUSTRY

Mining and the Environment

Alaska has a varied wealth of resources, from mining, oil & gas, to tourism, seafood, and the character and diversity of its people. No one industry exists in a vacuum, so when expenditures and projects are realized in one part of the economy, it has affects on related industries. In the case of mining, the process of extraction can have detrimental environmental impacts if resource extraction is not done responsibly.

The Mining industry faces the challenge of balancing its interest with those of the people on whose lands the resources subside, be it environmental groups, the State, or Native peoples. The U.S. Geological Survey (USGS) helps in the gathering, analysis, and presentation of important geological data used for decision-making. Often times, balancing interests and implementing responsible resource extraction is a multi-party process. For example, USGS Fact Sheet 94-072 chronicles an effort by USGS, U.S. Bureau of Mines, U.S. Fish and Wildlife Service, and Calista Corporation (an Alaskan Native Corporation) to investigate potential environmental contamination around naturally-occurring, mercury-rich deposits in Alaska and subsequent affects on freshwater fish. Studies such as these help mining companies, the State and other interested parties take into account all possible issues and find solutions in order to move towards responsible resource development.

A current environmental challenge facing the industry revolves around the Pebble mine prospect. The Pebble deposit lies in the headwaters of two rivers that feed Bristol Bay, one of the world's biggest producers of wild Salmon. As noted in this report, salmon is one of Alaska's key assets. Northern Dynasty Minerals is spending millions of dollars on specific studies in hopes of turning



Pebble into North America's largest gold mine and second-largest copper mine. There is a lot of social and political debate as to the potential impact of the Pebble mine project on wild salmon.

The Minerals Commission has made the following recommendations addressing some of the challenges in the industry; these include but are not limited to:

- ★ Continue to develop more efficient and timely permitting processes.
- ★ Ensure adequate funding and personnel for permitting agencies so they can meet the needs of the state's growing mining industry.
- ★ Seek National Pollutant Discharge Elimination system (NPDES) State primacy from the U.S. EPA according to legislation passed in 2005.
- ★ Continue to keep infrastructure development as a policy cornerstone.
- ★ Resolve land tenure, navigability, and right-of-way access issues.
- ★ Provide adequate funding for acquisition of baseline geological and environmental knowledge statewide.
- ★ Support the Alaska Minerals & Energy Resource Education Fund (AMEREF).
- ★ Ensure that a world-class mining engineering program is developed and maintained within the new framework of the College of Engineering and Mines at University of Alaska Fairbanks (UAF).
- ★ Expand the effort directed toward marketing Alaska as a premier place to invest in mineral exploration and development prospects, particularly in Asian countries.



Oil and Gas

International events have been a catalyst in the rise of oil prices. In 2005, the price of oil reached a phenomenal \$70 per barrel. The increase in the price of oil provided additional revenues to the State and the oil industry. On an individual level, Alaskans, like all Americans, have borne the brunt of higher gasoline costs and higher utility bills.



The impact of the price of oil is reflected in the increase in Alaska State government's total revenue in FY 2005. Total government revenue of \$8.9 billion increased from \$8.6 billion in FY 2004. Total revenue is comprised of restricted and unrestricted revenues.

Restricted revenue makes up more than 64 percent of total government revenue and is restricted by the constitution, state or federal law, trust or debt restrictions, or customary practice. The legislature can, at any time, remove restrictions that are solely imposed by either Alaska statute or customary practice. In FY 2005, investment earnings made up about 48 percent of restricted revenue, while oil revenue made up less than ten percent of restricted revenue.

Unrestricted revenue is general-purpose revenue not restricted by the constitution, state or federal law, trust or debt restrictions, or customary practice. Unrestricted revenue is generally used for budget planning purposes and makes up almost 36 percent of total revenue. The majority of oil revenue goes into unrestricted revenue. In FY 2005, oil revenue made up about 89 percent of unrestricted revenues. The state receives oil and gas revenue from four sources: oil and gas production tax, property tax, royalties and corporate income tax.

As a whole, oil revenue makes up almost 38 percent of total Government revenue of \$8.9 billion. Figure 31 illustrates revenue by sources and major components.

Figure 31

**Unrestricted and Restricted Revenue by Major Source,
FY 2005 and Forecasted FY 2006-2007
(\$ in millions)**

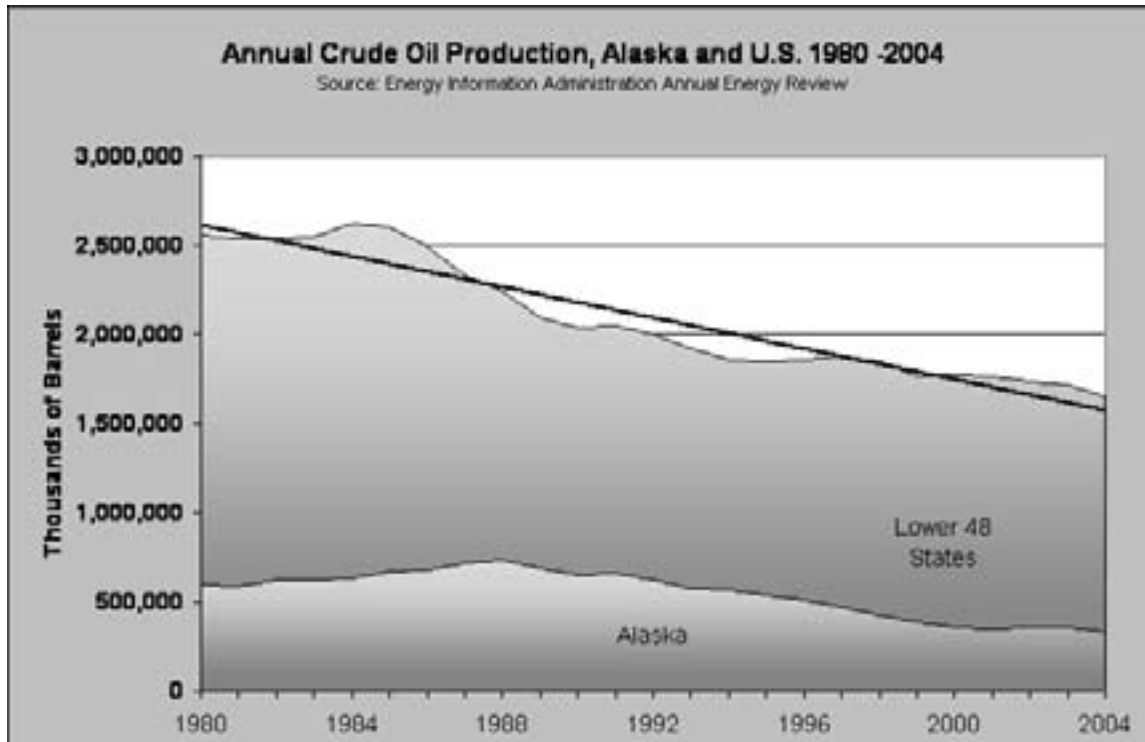
	History	Forecast	
	FY 2005	FY 2006	FY 2007
<u>Unrestricted*</u>			
Oil Revenue	\$2,849.6	\$3,526.9	\$3,008.4
Non-Oil Revenue	\$314.5	\$389.9	\$368.9
Investment Earnings	\$24.7	\$52.8	\$59.5
<i>Subtotal</i>	\$3,188.8	\$3,969.6	\$3,436.8
<u>Restricted</u>			
Oil Revenue	\$545.5	\$623.5	\$551.1
Non-Oil Revenue	\$514.7	\$528.4	\$468.8
Investment Earnings	\$2,773.6	\$2,383.2	\$2,563.7
Federal Revenue	\$1,924.9	\$2,764.9	\$3,061.0
<i>Subtotal</i>	\$5,758.7	\$6,300.0	\$6,644.6
Total	\$8,947.5	\$10,269.6	\$10,081.4

* Total unrestricted revenue reported from Alaska State Accounting System (AKSAS) with adjustments for certain municipal sharing of statewide taxes and additional spending restrictions.

Source: Alaska Department of Revenue - Tax Division

As noted, oil revenues continue to dominate the unrestricted revenue picture—and will continue to provide 75 percent of Unrestricted General Purpose Revenue through FY 2009. However, North Slope oil production is declining. Alaska's crude oil reserves of 4,446 million barrels (2003) places it third in the nation and account for 20 percent of U.S. crude oil reserves. The Department of Revenue estimates Alaska North Slope production during FY 2006 at 865,000 barrels per day (bpd) compared to 917,000 bdp in FY 2005, a decline of five and one half percent for the year. The decline in Alaska crude oil production is forecasted to average 1.2 percent annually from fiscal years 2005 to 2016. The higher than expected downturn in total production during 2005 results in part from a larger than expected pipeline maintenance work contributing to production slowdowns and a major oil field company's decision to remove about 20,000 barrels a day of aging oil wells from service for safety upgrades.

Figure 32 - Alaska and U.S. Annual Crude Oil Production 1980 - 2004.



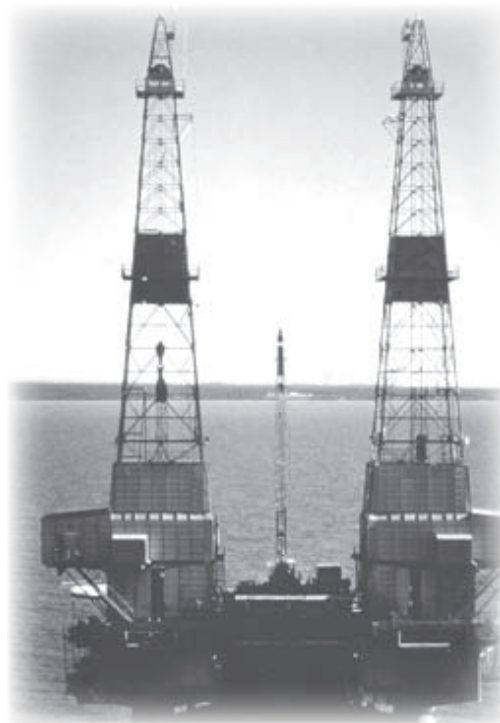
OIL PRICE FORECAST

Oil prices have continued to climb since the Division of Revenue's last forecast; additionally 2005 witnessed volatility in crude oil prices not seen since the Persian Gulf War in 1990.³ The price of Alaska North Slope (ANS) crude at West Coast markets remained above \$60 per barrel for eight consecutive weeks starting in August 2005 and the weekly average has not dropped below \$55 per barrel since. Worldwide demand, although not increasing at the rapid pace experienced in 2004, has grown nonetheless, utilizing most production capacity. In fact, the lack of spare production capacity is one of the reasons prices have been volatile and the reason many believe future prices could rise. Record high oil prices and concerns about Middle East supplies have softened demand growth slightly, but global oil demand in 2006 is still expected to see a net increase of about 2 percent over 2005 levels.

³ Volatility is measured by the standard deviation, the most commonly used measure of risk in the investment world. Increasing dispersion increases the risk that prices may move farther from the mean. The FY 1990 dispersion was \$6.82 per barrel; for FY 2005, the dispersion is \$7.67 per barrel.

A BRIEF REVIEW OF PETROLEUM-RELATED EVENTS

- ★ In August and September 2005 hurricanes Katrina and Rita caused widespread destruction in the U.S. Gulf states and disrupted production and refineries in the Gulf of Mexico, including a permanent decrease in existing production capacity. Crude prices soared to their highest level (in nominal terms) in U.S. history. Shut-in volume is expected to average 260,000 barrels per day for the first half of 2006.
- ★ Analysis presented in February by Energy Intelligence suggests that price increases in the U.S. have occurred in part due to increased Chinese demand for low sulfur crude oils in conjunction with decline in the production of this type of crude oil. In addition, they assign an effect, perhaps twice as large, to non-commercial investment in oil futures contracts. They project no fundamental change in this for 2006.
- ★ According to the International Energy Agency (IEA), worldwide oil consumption is expected to grow about 1.78 million barrels per day in 2006, an increase of 2 percent over the prior year. China's government reported a slight decrease in demand during 2005 while the IEA reported growth of 3.0 percent. The difference arises from accounting for inventory build-ups, smuggling, burning and unreported production. In February, the IEA predicted a rebound in Chinese demand growth during 2006 to 5.8 percent. Demand is predicted to grow moderately in other areas of the world including 1.7 percent in North America and 0.3 percent in Europe. They do not predict declining growth in any region.
- ★ The IEA estimates that crude oil production from countries that are not members of the Organization of the Petroleum Exporting Countries (OPEC) in 2006 will increase from 2005 levels by 1.3 million barrels a day, or 2 percent.



- ★ OPEC crude oil capacity is expected to outpace demand during 2006 with an increase of 1 million barrels per day growth, according to the IEA in February. This in the face of expected worldwide growth in demand of 1.78 million barrels per day. During the beginning of 2006 the IEA has been slightly lowering world-wide demand projections and slightly increasing supply.

NATURAL GAS PIPELINE

The State of Alaska continues work begun several years ago to secure a natural gas pipeline tapping into Alaska's vast natural gas reserves. Natural gas production from the North Slope is especially affected by identifying an economic means of transporting the gas to market. Much of the gas is currently being injected into crude oil wells as a way of maximizing oil recovery. However, with natural gas prices at record highs, and diverse investment interest in constructing the pipeline equally high, prospects have never been better for moving ANS natural gas to market.

Last year Congress approved an economic incentive package to facilitate pipeline construction, including loan guarantees, accelerated depreciation, and other provisions aimed at streamlining the process. According to Department of Revenue oil analysts, on a national level, Alaska's proven natural gas resources amount to around 35 trillion cubic feet (tcf) and when compared to the U.S. proven gas reserves of 189 tcf, account for 18 percent of the nation's natural gas reserves.

Undiscovered potential gas reserves in Alaska are significantly greater, with reserves estimated at 213 tcf. United States demand for natural gas is expected to grow by slightly more than one percent per year through 2025. The U.S. Department of Energy estimates the demand for natural gas worldwide will increase more than 60 percent by 2025 as emerging economies in China, India and Brazil continue to expand.

Factors affecting the future price of Alaska natural gas include:

- ★ U.S. demand increasing at 1.3 percent annually for the next 20 years;
- ★ emerging economies growing demand for energy;
- ★ competition from international supplies of liquid natural gas, a market expected to grow 12-fold by 2025; and
- ★ the increasing use of alternative fuels such as coal in place of natural gas in the U.S. market.

POTENTIAL ENERGY PROSPECTS

ANWR

As this report goes to publication, the 2005 Congressional debate over whether to develop the Arctic National Wildlife Refuge (ANWR) oil reserves ended when language to permit oil development was removed from a Department of Defense bill before the Senate. A similar bill in the House containing ANWR oil development language was passed earlier. Congressional leadership from both bodies has agreed to consider a new ANWR bill again next session.



Other Energy Prospects

In 2005, the State's Oil and Gas Division offered its first area wide oil and gas lease sale in the Bristol Bay area in 22 years. Approximately 1,000 tracts were offered with 37 bids on the same number of tracts totaling nearly 213,000 acres. According to Division specialists, this is the beginning of what is expected to be a total of ten annual areawide sales in the region. Shell was the highest bidder at nearly \$1 million for 33 tracts totaling 190,000 acres or \$5.00 per acre. In 1998 after nearly 100 years developing Alaska's energy potential, the company left the State. Shell returned to Alaska in 2005 to re-establish itself in the Alaska oil business with 84 leases totaling \$44 million during the latest U.S. Minerals Management Service Beaufort Sea lease sales. A company spokesperson said recently that Shell has re-examined the elements and opportunities in Alaska and "feels like now is the time to come back and build another successful venture."

ConocoPhillips capital expenditures in exploration and production during 2005 are expected to be \$0.8 billion, directed toward the development of the Alpine satellites and the West Sak heavy-oil field, and continued development within existing Prudhoe Bay and Kuparuk areas. Oil energy projects currently under development include the Fiord and Nanuq satellites at Alpine, J-Pad development at West Sak, development drilling at Schrader Bluff and Prudhoe Bay. The company is also pursuing development opportunities for significant natural gas resources in Alaska. British Petroleum, historically the largest investor in Alaska North slope oil and gas, will spend \$0.6 billion of its 2006 budget in Alaska, down \$200 million from its 2005 Alaska budget. As half-owner of the Trans Alaska Pipeline, the company expects to spend a significant part of its budget modernizing the pipeline and improving their facilities to meet current and future production plans and to spend another billion dollars to maintain its existing oil fields.

In August of 2005, Chevron bought Union Oil Company to become Chevron-Unocal. The same year, its global exploration budget was \$11 billion with \$3.8 billion budgeted for U.S. investments. The company's Alaska interests include leases ranging from those in Prudhoe Bay, Kuparuk River, and Duck Island units to sites in the Arctic National Wildlife Refuge and Point Thompson on the eastern North Slope. In Cook Inlet, the company operates the Swanson River, Trading Bay and South Granite Point oil fields and is a major natural gas supplier for Southcentral Alaska as a result of its one-third interest in the Beluga River field.

CHALLENGES FACING THE OIL AND GAS INDUSTRY

From the state's perspective and according to the Alaska Division of Oil and Gas, access to existing pipelines and facilities at a fair cost remains a formidable challenge to new explorers. The uncertainty surrounding access to unregulated facilities through commercial agreements has significantly reduced the pace of exploration on the North Slope. High fees charged by the facility owners increase the cost to explorers and reduces competitiveness that could lead to a continuation in the decline of statewide oil production. Protection of the environment remains a priority and Alaska mandates the highest standards in the world. As a result, numerous technological advances in environmental-conscious drilling first developed in Alaska and have been transferred around the world.

From the oil companies' perspective, questions of tax stability and permit streamlining are of major concern and will continue to be the subject of public discussion with the State of Alaska. Increases in production taxes could affect oil development investments differently for each kind of development. Meanwhile, the State estimates it must attract more than \$30 billion in new investments over the next six years to maintain North Slope oil production at around one million barrels per day.

Seafood

Total seafood earnings, employment, and exports have all increased over the past two years. Over four billion pounds were harvested in 2005, worth \$1.3 billion in gross earnings to fishermen, and resulting in more than 6,700 direct jobs. This is the highest value paid to commercial fishermen since 1999 and second highest value since 1995.

Alaska's commercial fisheries are among the best-managed fisheries in the world. Regulations put strict limits on the total allowable catch to ensure fish stocks remain healthy and subject to sustainable harvests. Environmental laws further safeguard the quality and safety of the product. Through private and public marketing partnerships intended to promote the superior quality and flavor of Alaska seafood products, Alaska commercial fishermen are gaining greater pricing leverage, not only with domestic high-end restaurant buyers, but in the growing global marketplace.

Alaska's seafood industry is under competitive pressure from other wild capture sources and huge increases in aquaculture products in the world. The Alaska seafood industry must continue to make technical advances in commercial fish harvesting and seafood processing to maintain and improve its global market position. Alaska's commercial harvests have remained fairly constant in recent years, while the value of the catch is growing. This is due in large part, to improved handling and product recognition resulting in greater demand by consumers.





While the total national value of Alaska seafood was estimated at over \$4.6 billion in 2001, only \$1.3 billion was earned by Alaskans.⁴ There remains great potential for Alaska to capture more value from seafood by building its primary and secondary processing sector and seafood-related businesses.

Public and private efforts have merged to combat increased competition and improve the economic value earned in Alaska. In 2003, the Murkowski Administration initiated the \$50 million salmon-industry Revitalization Strategy that continues into 2006. This multi-year strategy includes aid for individual fishermen, aid for struggling communities, economic-development grants and other economic development programs for private and non-profit entities. Such programs work

to improve the business environment for small businesses through technical assistance, matching grants, loan programs, and product quality improvements. Leveraging efforts - matching dollar for dollar - undertaken by the Governor's Fish Cabinet and implemented through the State of Alaska's Department of Commerce, Community and Economic Development's, Office of Economic Development has resulted in over \$85 million to the salmon industry alone. Such strategies are also resulting in grantees making further investments into their operations and have opened up new markets.

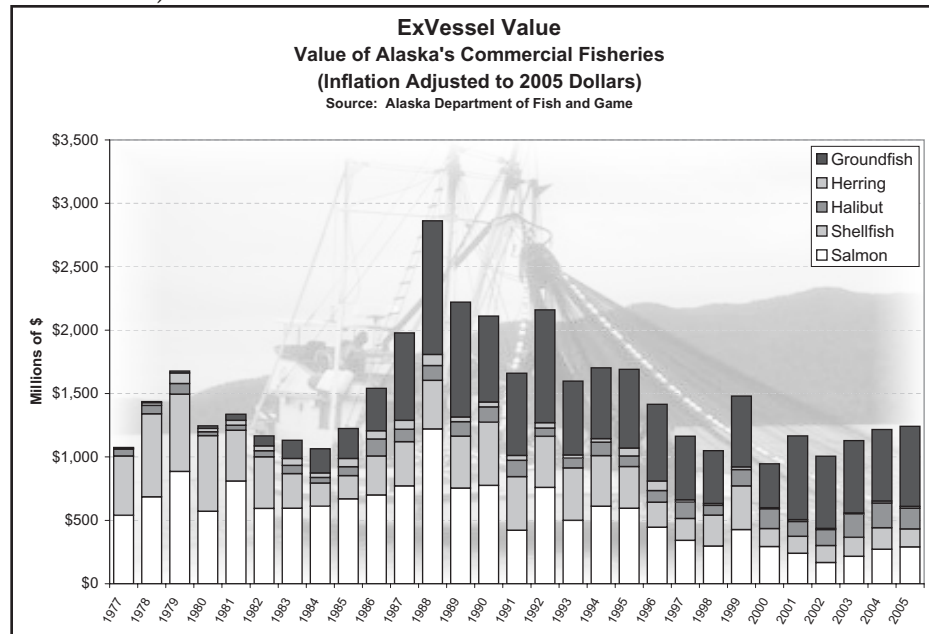
SEAFOOD HARVEST VALUE

In 2005, and for the third consecutive year, the value paid to Alaska's commercial fishermen (ex-vessel) increased. Approximately four billion pounds of fish and shellfish were harvested in Alaska waters, with a value to the harvesting sector of \$1.3 billion.⁵ Figure 33 on the following page shows the ex-vessel harvest value adjusted for inflation between 1977 and 2005.

4 Impacts of the Seafood Industry on Alaska's Economy, Northern Economics, February 2003.

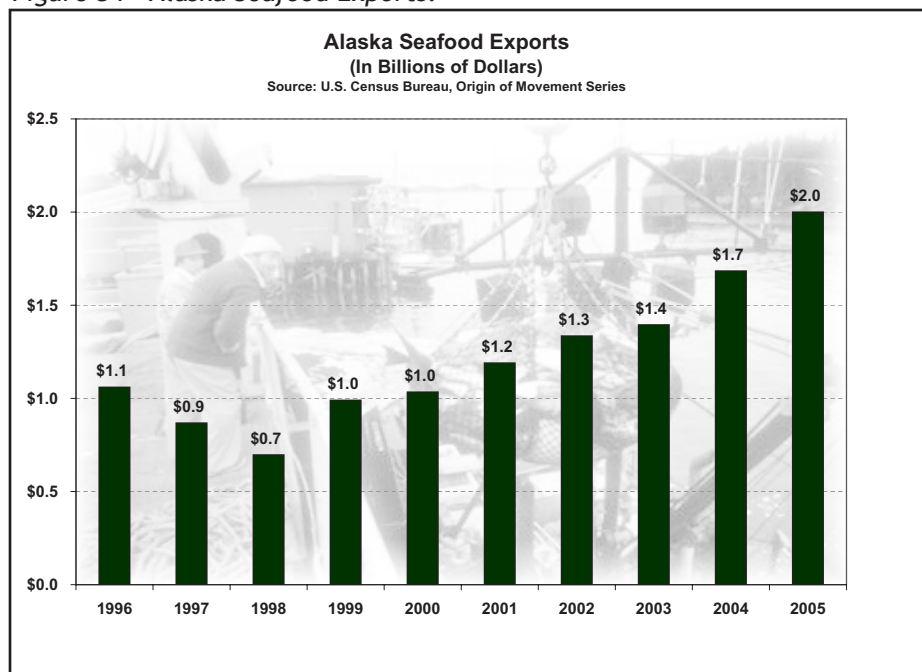
5 Alaska Department of Fish & Game, Division of Commercial Fisheries, 2006 Division Overview.

Figure 33 - Value of Alaska's Commercial Fisheries (Inflation Adjusted to 2005 Dollars).



Alaska processors earned wholesale values in excess of three billion dollars in 2005.⁶ Exports of seafood out of Alaska worth two billion dollars account for 55 percent of Alaska's total export value.⁷

Figure 34 - Alaska Seafood Exports.



⁶ Ibid.

⁷ U.S. Customs and Border Protection, Foreign Trade Division, Export Data by Exporting District.

In 2004, Alaska had two of the country's five top fishing ports ranked by total value of harvest. Dutch Harbor (Unalaska) and Kodiak produced \$155 million and \$91 million in ex-vessel value, respectively. Alaska has 16 of the nation's top 100 fishing ports as shown in Figure 35 below. Dutch Harbor (Unalaska), located in the western Aleutians Islands Census Area, is Alaska's busiest port with approximately 886 million pounds of seafood landed.⁸

Figure 35

2004 Alaska and Selected Commercial Fishery Landings by Port Ranked by Dollars

Rank	Port	Millions of Pounds	Millions of Dollars
1	New Bedford, MA	175.1	206.5
2	Dutch Harbor-Unalaska, AK	886.4	155.0
4	Kodiak, AK	312.6	91.0
7	Seward, AK	38.5	49.7
9	Sitka, AK	37.2	43.3
12	Gloucester, MA	113.3	42.7
13	Naknek-King Salmon, AK	92.6	41.4
15	Homer, AK	18.1	39.8
17	Petersburg, AK	102.6	34.2
22	Cordova, AK	40.5	29.0
32	Ketchikan, AK	96.7	23.0
35	Juneau, AK	15.0	21.5
46	Kenai, AK	21.8	16.5
52	Provincetown-Chatham, MA	13.7	14.1
54	Dillingham-Togiak, AK	28.2	13.0
61	Boston, MA	8.8	8.8
64	Wrangell, AK	7.7	8.4
82	Craig, AK	3.1	4.9
90	Yakutat, AK	3.2	3.3
97	Anchorage, AK	1.1	0.6

Source: Personal communication from the National Marine Fisheries Service, Fisheries Statistics Division, Silver Spring, MD

8 U.S. Department of Commerce, National Oceanographic and Atmospheric Administration, National Marine Fisheries Service, Office of Science and Technology.

Alaska Salmon⁹

Total Volume

The 2005 Alaska salmon harvest of 206 million salmon is the third-largest on record and only slightly below the top harvest of 217 million set in 1995. A record pink salmon catch and strong sockeye harvest were major contributors to the near-record. Chinook and Coho both came in slightly under projection, while the statewide chum harvest was short of projection by one-third.



Total Value

Fish & Game's preliminary estimate of the salmon ex-vessel value in the 2005 season is slightly above \$334 million. This represents the third consecutive year of increasing salmon value since 2002, and the first time since 1999 that ex-vessel value will exceed \$300 million. With all Alaska wild salmon species, there is a strong increase in demand over the farm salmon substitute. Consumer awareness about the healthy qualities of wild salmon appears to be improving its position in the world market.

Pink Salmon

The pink harvest of 146 million fish set a new record, surpassing the previous record of 145 million set in 1999. The statewide ex-vessel price for pink salmon increased to \$0.12/lb for the fishermen, a 100 percent improvement over 2002 prices. Improved market conditions for pink salmon provided the incentive for processors to buy more of the harvestable surplus than in recent years. Recent growth in pouch and minced products used to make salmon burgers are draining the supply of pink salmon at the dock. Price improvements are expected to continue.

⁹ Portions of the following is abridged from of an analysis provided in the Alaska Department of Revenue's Alaska Salmon Price Report and the Alaska Department of Fish & Game's Division of Commercial Fisheries.

Sockeye Salmon

The sockeye harvest of 43 million fish was slightly over projection, marking the first time in a decade that Alaska sockeye harvest has exceeded 40 million fish for two consecutive years. The 2005 season is one of only 13 seasons in the last century when the sockeye harvest was over 40 million fish. Bristol Bay fishermen landed 24 million sockeye in 2005 (56 percent of the state total) and other Alaska sockeye fisheries accounted for the remaining 19 million fish. Significant price gains were sustained for sockeye harvests, with fishermen earning a statewide ex-vessel price of \$0.73/lb. This increase in price per pound for sockeye in the midst of increases in supply provides strong evidence this top earning salmon species is beginning to break out of its commodity pricing structure dictated by farm salmon. Sockeye production is finding increased markets in the U.S. domestic fillet market. Growth in frozen, ready-to-eat fillet products are assisting industry in an effort to move away from can and head & gutted frozen product forms.



Coho Salmon

Coho harvests in 2005 totaled 4.6 million fish, eight percent below the five million-fish projection. The price for coho increased to \$.76/lb representing an increase of over 100 percent since 2002. Strong prices for troll caught coho continue to support price gains; however, industry opinion indicates greater price gains for this salmon.

Chum Salmon

2005 Chum salmon statewide harvests came in below projections by 38 percent. This marks the third consecutive year that statewide chum harvest levels have been significantly below projection with most of the shortfall occurring in Southeast. The price for chum salmon increased steadily over the past three years. Much of this gain may be attributed to the decline in supply. Pricing for this species is driven by chum roe (ikura) prices in Japan. Ikura prices have been down in recent few years.

Chinook/King Salmon

The 2005 statewide King salmon harvest of 662,000 fish favorably compares to pre-season projections of 765,000 salmon. King salmon prices are sustaining tremendous growth yielding almost a 100 percent increase since 2002.

Figure 36

5-year Average Harvests, Value, and Permits Fished for selected Alaska Commercial Salmon Fisheries, 2000 -2004

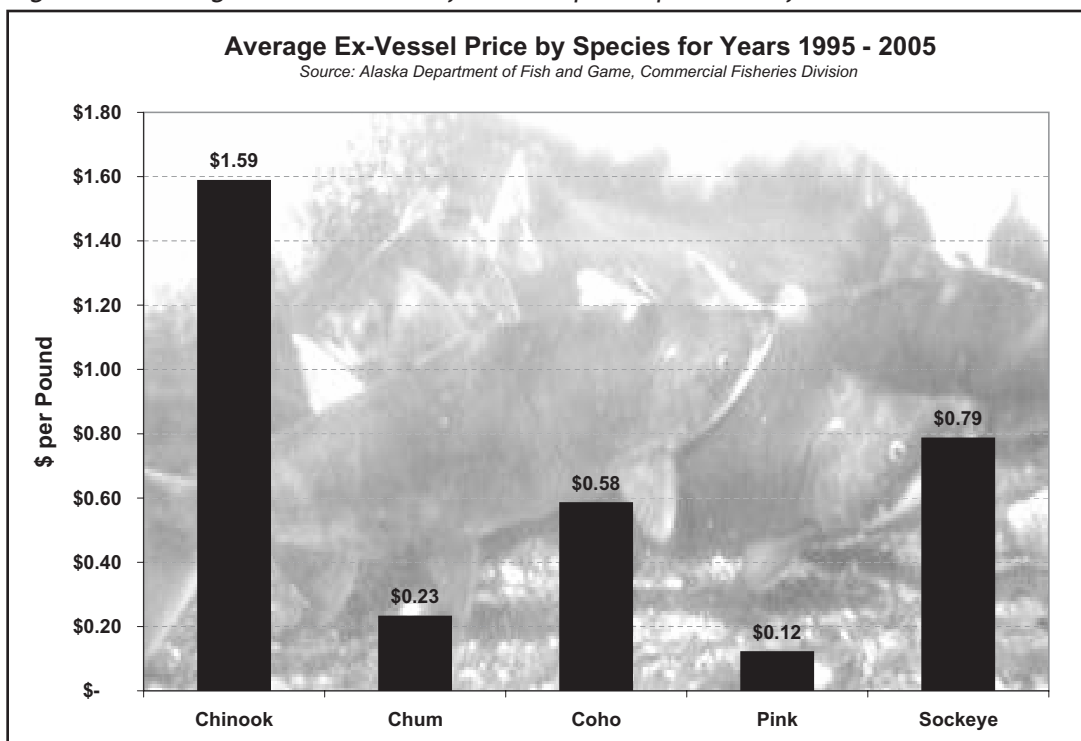
Fishery	Harvest (lbs)	Harvest (Number of Fish)	Value ^a (\$)	Permits
Southeast & Yakutat	286,506,541	61,727,291	\$72,573,000	1,781
Prince William Sound	169,733,170	40,563,838	\$43,841,000	680
Kodiak	87,729,099	21,262,985	\$19,744,000	322
Bristol Bay	112,058,010	18,070,428	\$56,097,000	2,285
Alaska Peninsula & Aleutians	40,999,253	8,476,735	\$13,668,000	285
Cook Inlet	28,301,597	5,337,269	\$14,657,700	982
Chignik	11,593,697	1,856,583	\$6,978,000	62
Kuskokwim	3,274,628	430,566	\$1,149,700	491
Kotzebue	786,247	91,401	\$129,000	37
Norton Sound	298,277	64,026	\$71,600	42
Yukon River ^b	682,624	50,182	\$1,269,000	465
Statewide	741,963,142	157,931,303	\$230,178,000	7,432

Source: Woodby et al. Alaska Department of Fish and Game, Special Publication 05-09, June 2005.

(a) Ex-vessel value of landed catch.

(b) No Yukon fishery in 2001.

Figure 37 - Average Ex-Vessel Price of Salmon Species per Pound for Years 1995 - 2005.



Halibut

Alaska's commercial halibut fishery closed mid November 2005 after landing 57.0 million pounds or 97 percent of the 2005 catch limit for a total value to fishermen of \$169 million. This is down slightly from 2004 season landings of 59.0 million pounds, or 96 percent of the total 2004 catch limit worth \$175 million. However, statewide prices paid to fishermen were at all time highs with some communities such as Juneau reporting end of season dock prices as high as \$4.00 per pound, a dollar higher than last season's regional high.



The outlook for halibut remains positive as domestic demand for the prized whitefish continues to remain strong.

Sablefish¹⁰

Sablefish is a highly prized, oily species that is unique to North Pacific waters and, until recently, moved primarily into the Japanese market. Harvests of sablefish have increased up to 41 million pounds in 2004. With a single main market for the species, the total value fell from \$81 million in 2003 to \$73 million in 2004. Sablefish harvesters remain concerned about the potential for aquaculture production from British Columbia.

Shellfish

Alaska's shellfish was worth \$148 million to commercial fishermen in 2005, the same year a new crab rationalization program began in the Bering Sea where the most important crab fishing occurs. Stock improvements resulted in crab quota increases for all three commercial crab stocks. While crab is the largest component of the shellfish category, shrimp and dive fishery species are also important.

¹⁰ National Oceanic and Atmospheric Administration (NOAA), Alaska Fisheries Science Center, 2005 Stock Assessment and Fisheries Evaluation (SAFE) Reports, Economic Analysis.

Crab

There are three main targeted crab species in Alaska, king, tanner, and dungeness.

King crab fisheries in 2005 dropped in value to \$85 million. While there was a decline in harvests, there was also a decline in price per pound. The Bristol Bay red king crab fishery remains the most valuable at approximately \$75 million in 2005.

Tanner crab fisheries, also called “snow crab” or “opilio”, play a large role in the Alaska crab fisheries. 2005 harvests were down slightly to 25.6 million pounds bringing in revenues to \$45 million. While there are a few tanner fisheries in Kodiak and



Southeast, the lions share of this species is harvested in the Bering Sea. Tanner crab faces immediate competition from Russian and Canadian stocks in the domestic market, leading to some downward pressure on price.

Dungeness crab is the smallest of the three crab fishery, accounting for \$6 million for the harvesting fleet. Most of the resource is harvested in Southeast.

Shrimp

Shrimp fisheries in the Alaska are small relative to other fisheries. The largest fishery is in Southeast where total harvests recently earned approximately \$4 million. In 2005, the values were down slightly at just under \$3 million statewide. The shrimp industry operates in a very competitive environment. Most of the shrimp in the world is produced in aquaculture operations. Americans import more shrimp - by far - than any other seafood species. The volumes of shrimp produced elsewhere dwarf Alaska's production. It may be possible to develop more market awareness of Alaska's wild shrimp in an effort to increase the value.

Dive Fisheries

Dive fisheries are made up of three main species, sea cucumbers, sea urchins and geoducks. These fisheries are contained almost exclusively, with some harvests of sea cucumbers in Kodiak. Geoducks are quickly surpassing sea cucumbers as the most valuable among these species. Recent changes in the

State's paralytic shellfish poisoning testing protocol significantly improved the ability of the industry to move out live product. This resulted in an estimated four-fold improvement in ex-vessel values to over \$2.6 million.¹¹ This industry continues to work towards greater access into the live fish markets, particularly in China and Hong Kong. These markets pay significantly more for live product.

Other

Alaska has scallop and clam fisheries. The Kodiak scallop fishery regularly supports a \$2 million fishery.



Groundfish

The state's most valuable commercial fishery and the one that accounts for roughly 20 percent of the nation's total ex-vessel landing value includes mainly Pollock and Pacific cod. The total harvest value paid to commercial fishermen in 2005 totaled \$660 million. This compares with \$565 million earned in 2004.

Pollock

Pollock is the most abundant seafood harvest in the country. Over 3.4 billion pounds of pollock are harvested in the waters around Alaska, with the allowable harvest increasing in recent years. Pollock is used to make surimi (a versatile protein paste), fish sticks and other whitefish products and routinely earns an estimated \$300 million at the docks. Caught mainly in the Bering Sea and Aleutian Islands region, pollock is typically harvested by large catcher trawlers and catcher processors.

Pacific Cod

Alaska holds among the world's largest cod stocks, earning over \$130 million to Alaska's fisheries. Harvests of Pacific cod have increased in recent years to a harvest of 596 million pounds in 2004. In 2004, Pacific cod was worth over \$140 million. With the decline in Atlantic cod stocks, Alaska's cod enjoys strong markets in Europe and the U.S.

11 Southeast Alaska Regional Dive Fisheries Association, Fact Sheet, March 17, 2006.

Flatfish

The flatfish complex of species includes fish like: yellowfin sole, arrowtooth flounder, Greenland turbot, flathead sole, and other flatfish. Collectively, these species make up a \$40 million fishery, yielding more than herring and King salmon fisheries combined. The resource remains strong.

Rockfish and Atka Mackerel

Rockfish and Atka mackerel combined were worth approximately \$25 million to the fleet in 2004. The rockfish category includes such species as Pacific Ocean perch, northern, roughey, shortraker, and shortspine thornyheads. Unlike most other offshore, groundfish species harvested in Alaska, rockfish harvests are greater in the Gulf of Alaska than in the Bering Sea. These are long-lived, slow growing species, requiring greater care through fisheries management. With that, harvests are kept low and have remained consistently productive over the last several years. These interestingly named species have good markets in a number of Asian and domestic markets.

The Atka mackerel is another consistent species caught mainly in the Aleutian Islands. In 2004, it earned the industry \$12.5 million. Catch rates have remained consistent around 125 million pounds annually.

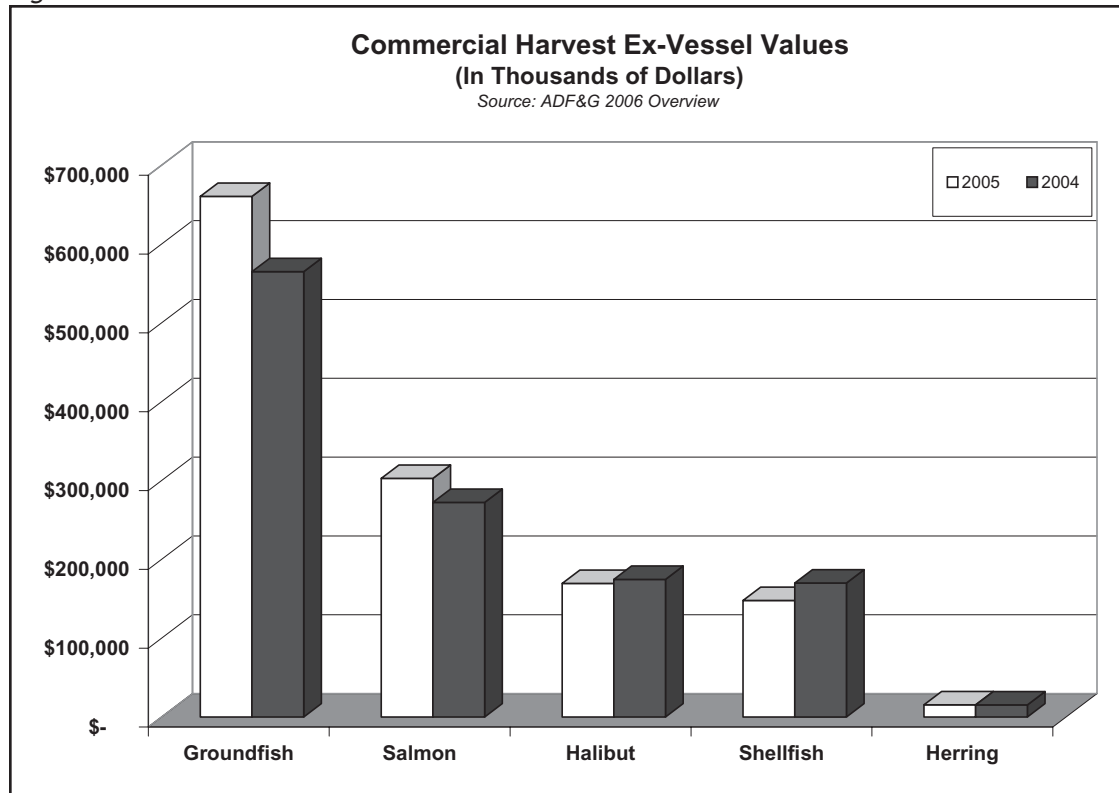
Herring

Harvests have remained consistent with this highly prized feeder fish. Herring serves as an important food source for many other commercially valuable species, placing great importance on its overall survivability. Due to an over dependence on the Japanese sac roe market during the late 1990's in an economy in recession, participants in this fishery experienced a significant drop in value, going from over \$60 million to \$18 million where depressed prices remain today. In 2005, commercial herring was valued at \$15 million to fishermen. The industry will need to continue to diversify its markets in order to take pressure off a tight Japanese market.

Shellfish Mariculture

Shellfish mariculture activity is limited to oyster, mussel and clam production. The state has approximately 50 farm sites, many of them non-producing. Overall farm value for the industry increased to \$650,000 in 2005, a considerable increase over values from years past. With the potential for geoduck farm sites coming into production over the next few years, it is conceivable this sector will sustain considerable growth.

Figure 38 - Commercial Harvest Ex-Vessel Values.



FISHERIES TAXES AND FEES

Each year, Alaska's seafood industry generates millions of dollars in revenue through taxes and fees paid to the State and local governments. The following table illustrates state revenues paid the past two years.

Figure 39

Revenue Generated by Alaska's Commercial Fishing Industry (In Thousands of Dollars)

Source: Division of Commercial Fisheries 2006 Overview

	2005	2004
Fish Processing Tax	25,560	29,245
Salmon Enhancement Tax	3,811	3,034
Seafood Marketing Assessment	3,523	3,295
Salmon Marketing Tax	2,455	1,964
Fishery Resource Landing Tax	8,645	6,861
Processor Corporate Tax	2,943	3,141
Dive Fishery Management Assessment	411	254
CFEC License Fees	3,887	3,602
Crewmember License Fees	1,897	2,038
Total	53,132	53,434

Lower fish processing, processor corporate and crewmember fees resulted in a slight decline in 2005 total revenues compared with the previous year.

At the local level, AS 29.45 Sales and Use Tax provides the authority for a municipality to levy a tax on the sale of fish within its municipal boundary. The following table describes fish revenues collected in 2005 and distributed to local communities.

Figure 40
**2005 Municipal Special Tax and Revenues and
Community Development Quota Royalties**
In Actual Dollars

Municipality	Special Tax	Revenues
Aleutians East Borough	2% Raw Fish Tax	\$2,871,000
Atka	2% Raw Fish Tax	\$23,169
Bristol Bay Borough	3% Raw Fish Tax	\$311,369
Chefornak	2% Raw Fish Tax	\$293
Egegik	2% Raw Fish Tax	\$412,575
Lake & Peninsula Borough	2% Raw Fish Tax	\$857,469
Saint Paul	3% Raw Fish Tax	\$507,446
Sand Point	2% Raw Fish Tax	\$597,372
Togiak	2% Raw Fish Tax	\$25,607
Unalaska	2% Raw Fish Tax	\$3,888,475
Yakutat, City & Borough of	1% Raw Fish Tax	\$26,300
Subtotal Special Tax		\$9,521,075
Estimated Commercial Seafood Property Taxes Paid to Local Communities		\$3,671,462
Total Special and Property Taxes		\$13,192,536
Shared Fish Tax ¹		\$19,453,000
Community Development Quota royalties 2004		\$56,500,000
Combined Commercial Fisheries Revenues		\$89,145,536

Source: 2005 Alaska Taxable, and CDQ Program DCCED

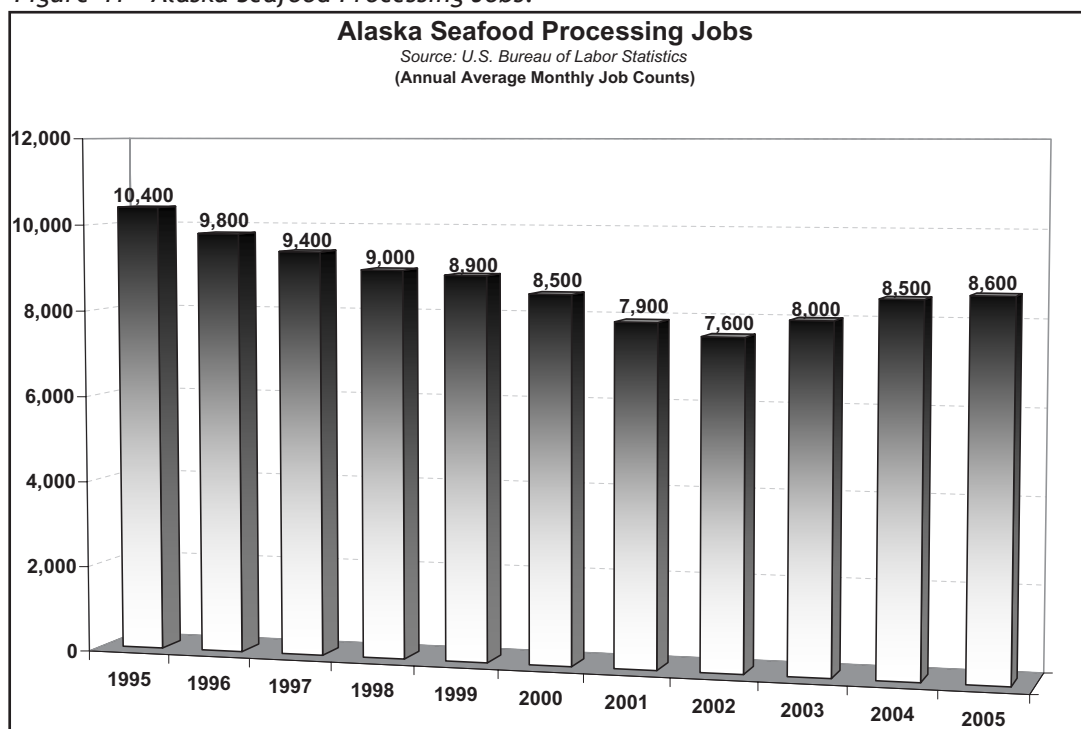
(1). The shared fish tax is collected at the state level and then shared among Alaska's communities. They include business tax and landing tax paid to organized and unorganized governments.

During 2004, Community Development Quota (CDQ) royalties contributed an additional \$56.5 million to CDQ corporations engaging in economic activity in western Alaska.¹² Since its inception in 1992, over \$110 million in wages, education, and training benefits have accrued, and over \$500 million in revenues have been generated for over 25,000 regional residents. In 2003, the asset value of the six CDQ groups exceeded \$260 million. The CDQ program has been successfully contributing to fisheries infrastructure in western Alaska by funding docks, harbors, and the construction of seafood processing facilities. In addition, this funding has allowed CDQ groups to acquire equity ownership interests in the Pollock, Pacific cod, and crab sectors, which provide additional revenues to fund local in-region economic development projects, as well as education and training programs.

SEAFOOD: EMPLOYMENT AND EARNINGS

Fish processing jobs underwent an eight year decline from 1995 through 2002, hitting a low of 7,600 jobs. In 2003, that trend finally reversed, increasing to 8,000 and in 2004 climbing slightly to an impressive 8,500. By 2005, approximately 100 jobs were added increasing the total number of seafood processing jobs to 8,600, the most since 1999.

Figure 41 - Alaska Seafood Processing Jobs.



12 The \$56.5 million figure is based on royalties received by CDQ groups from the sale of annual harvesting rights for approximately 10 percent of all Bering Sea and Aleutian Island fishing resources. CDQ groups make an additional \$77 million in revenue from investments in fishing assets and passive investments.

In 2005, combined seafood harvesting and processing jobs accounted for over seven percent of all private sector jobs in the state, totaling 15,000 direct jobs. The same year, oil and gas, and construction accounted for three and one half percent and eight percent respectively.

CHALLENGES FACING THE SEAFOOD INDUSTRY

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.

Aquaculture

Over the next twenty years aquaculture will be a pervasive force on the Alaska fishing industry. The salmon industry is now emerging from its struggles under the weight of huge supplies of farmed salmon. Sablefish, halibut and cod, all-important to Alaska through the 20th century, are in various stages of aquaculture production elsewhere. To establish the superiority of its wild seafood brand over farm-based competitors, Alaska's seafood suppliers are embracing 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.



Oyster Flupsie in Naukati Bay.

Alaska also faces the question of aquaculture in the federal waters off Alaska. The U.S. Department of Commerce, through the mission objectives of the National Oceanic and Atmospheric Administration (NOAA), is aggressively pursuing an aquaculture permitting system that may lead to aquaculture operations in Alaska waters (<http://www.nmfs.noaa.gov/mediacenter/aquaculture/>).

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 like geoduck. This continues to be a growth industry with fundamental hurdles that hamper increases in volume. The State of Alaska will continue to work closely with this industry to improve its position.

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 waste.

Market Diversification

Alaska seafood suppliers continue developing new markets throughout the world in response to declining demand from Japan, a traditional buyer of Alaska seafood products. Global competition continues to challenge Alaska operators, but promising opportunities exist in the U.S. and Europe, as well as in emerging markets in developing nations.

The Privatization Quandary

Alaska’s fishery management system is significantly impacting the economics of Alaska fisheries through its attempts at developing privatization or quota systems. There remain pros and cons to such systems.

The harvesters under the halibut and sablefish Individual Fishing Quota program see notable benefits of a privatization or quota system. The average price per pound in the five years preceding the program in 1995 versus 2000 - 2004, went from \$1.42/lb to \$2.45/lb for halibut and \$1.10/lb to \$1.90/lb for sablefish. Increases in sablefish prices were due in part to declining supply directed at a limited market. However, for both species, the ability for harvesters to move a steady supply of product to markets over a longer period of time allows for more fresh product to reach the market; does not oversupply the market at two or three times in the year; and provides a pace that allowed for sensible market development.

On the other hand, privatization leads to inevitable exclusion of many fishermen from traditional fisheries and is increasingly pricing out the ability for new individuals to enter the industry. Halibut or sablefish quota is expensive to purchase on the open market. Anecdotal information from harvesters indicates most quota purchases are made by those that already have quota, leading to increased consolidation. Other more recently privatized fisheries, like the Bering Sea crab fishery, led to significant job loss and economic activity for a number of Alaska's dependent fishing communities.

It will be a challenge for those in the management arena to develop systems that allow for increased efficiencies without substantially impacting the economic future of Alaska fishing families and communities.

Aging of the Fleet

A spin-off development from the quota systems and other privatization efforts is the "aging of the fleet". The average age of a fleet vessel is reported by the United Fishermen of Alaska to be in excess of 50 years old and increasing each year. This trend appears to have dire consequences for this physically demanding occupation. Fewer and fewer young Alaskans can afford to enter the industry or do not consider it a viable alternative to other occupations. Allowing for ease of entry into an industry is an important function within government's economic development efforts. This is counterproductive towards the State's goal of maximizing the value of the resource for Alaskans. Efforts are underway to examine this growing phenomenon and to better determine how permitting and human resource structures can change to reverse this trend.

Coastal Community Survival

Another direct spin-off development from the quota systems, as well as increasing seafood competition in the world markets, is the survival of Alaska's coastal fishing communities. Quota systems lead to less economic activity through fewer participants. They also have the ability to move product to new processing venues given the economic advantages of the species in question. While Alaska's wild stocks are healthy, the volumes are not increasing. With this stable, but static growth, Alaska continues to fall lower on the ladder of

worldwide seafood production. Along with this decline, Alaska seafood faces commodity pricing schemes set by low-cost manufacturing regions like China and Thailand. Rural Alaska communities cannot compete head-on with these regions and must find innovative ways to improve on core strengths. Dealing successfully with the out flight of economic activity and the competitive nature of the seafood industry, is a major goal for all coastal fishing communities.

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 it does livestock and other protein sources for the purposes of several federal food programs. Alaska continues to pursue recognition of its seafood resources by these federal food programs as an equal along alongside livestock and other proteins.

Sport Fishing and Commercial Fishing Interests

Allocation disagreements between commercial and sport fishing operators around Alaska continue to take precedence over a long list of fishing issues in a growing number of fisheries and regions. The halibut fishery is under strenuous review to determine whether catch quotas like those in place for commercial harvesters should be applied to the halibut sport fishing charter fleet. Cook Inlet's commercial salmon fleet is facing constant challenges from an ever growing sport fishing industry, and is the focal point in the battle between these two sectors. How various management bodies handle these emotionally charged, economic issues will serve as a guide for what may inevitably occur throughout Alaska.

Subsistence

Every year, thousands of Alaskans participate in subsistence fishing, processing and hunting activities. These activities are socially and culturally important for many Alaskan families and communities, these activities also represent a crucial component of the state's non-cash subsistence economy. Subsistence has been legally defined to include the customary and traditional uses of fish and game in all of Alaska's rural areas. If a person moves into a rural area and adopts that way of living for their own, then that person, whether Alaska Native or non-Native, may legally fish and hunt for subsistence.

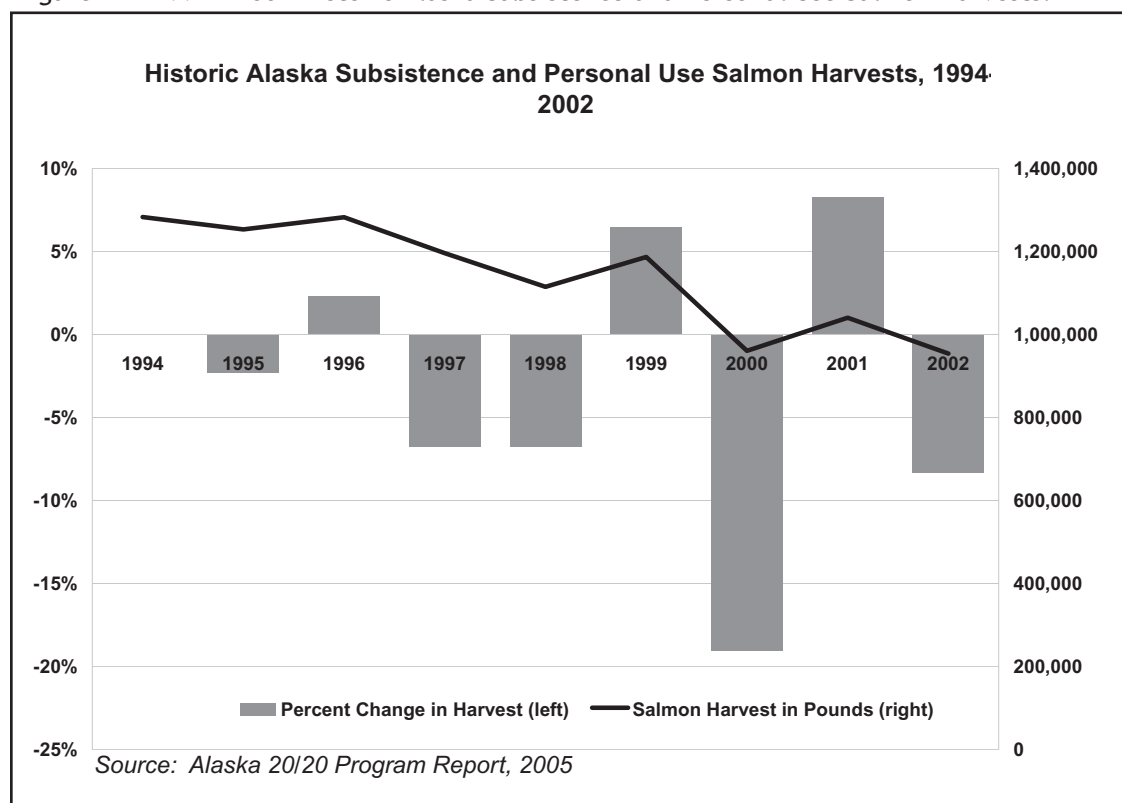
Access to subsistence resources is valued by all Alaskans. Federal law requires a rural preference on federal lands. The Alaska constitution forbids such a preference. Due to lack of progress in resolving this conflict, federal agencies now manage fish and game on federal lands, while the state manages these resources on state lands.

State and federal law give subsistence users priority over commercial fishing, recreational fishing, and hunting. By and large, urban fishers and hunters have not experienced major changes in harvest opportunity due to the subsistence priority. Personal use net fisheries provide established food fisheries for urban residents in areas closed to subsistence fishing. General hunting and sport fishing regulations continue to provide opportunities for residents and non-residents. The greatest effect of state and federal subsistence laws has been to legally recognize customary and traditional harvest practices and uses in rural areas.

SUBSISTENCE HARVESTS IN RURAL ALASKA

According to the Alaska 20/20 Progress Report, most rural families in Alaska depend on subsistence fishing and hunting. For surveyed communities in different rural areas, from 92 - 100 percent of sampled households used fish, 79 - 92 percent used wildlife, 75 - 98 percent harvested fish, and 48 - 70 percent harvested wildlife. Figure 42 shows that fish, mostly salmon, make up 60 percent of the subsistence harvest by weight and provide an approximate indication of subsistence trends.

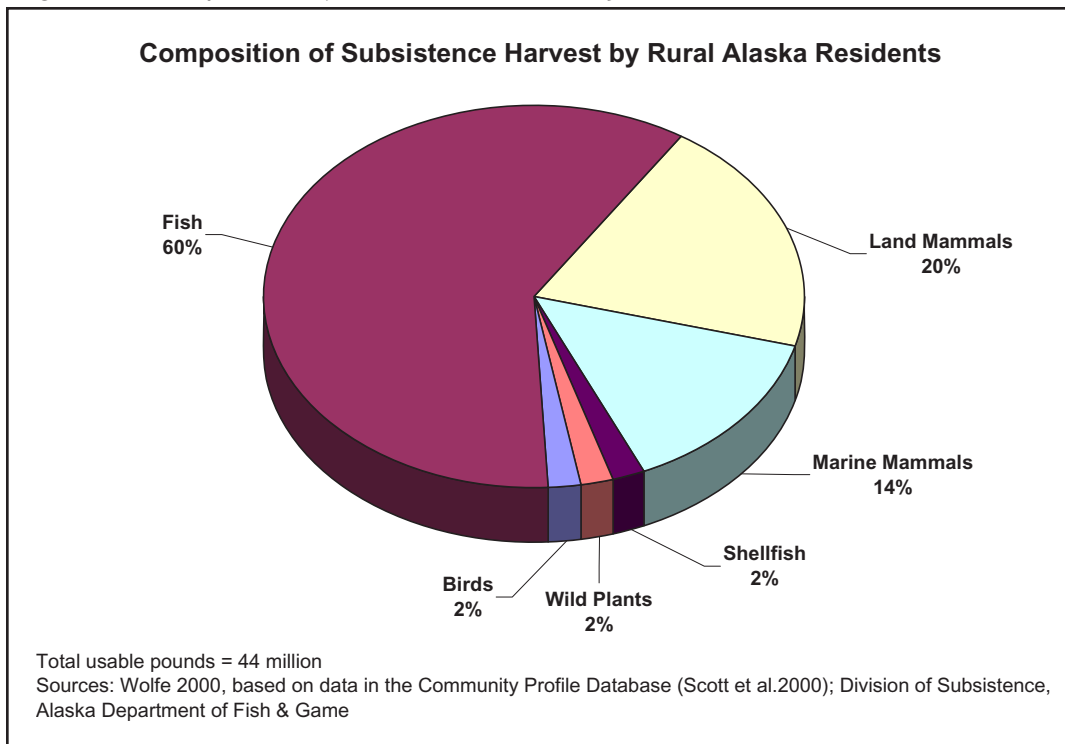
Figure 42 - 1994 - 2002 Historic Alaska Subsistence and Personal Use Salmon Harvests.



According to the 2003 Alaska Subsistence Fisheries Annual Report, of the estimated 43.7 million pounds of wild foods produced in rural Alaska communities annually, subsistence fisheries contribute about 60 to 62 percent from finfish and 2 percent from shellfish (see Figure 43 on the next page). On average, the subsistence fisheries harvest provides about 230 pounds of food per person per year in rural Alaska.

Although contributing a major portion of the food supply, subsistence harvests represent just a small part of the annual harvest of wild resources in Alaska, about 2 percent. Commercial fisheries take 97 percent of the wild resource harvest, and sport fisheries and hunts take about one percent.

Figure 43 - Composition of Subsistence Harvest by Rural Alaska Residents.



SUBSISTENCE SALMON HARVESTS IN 2003

The estimated total subsistence harvest of salmon in Alaska in 2003 based on annual harvest assessment programs was 1,003,920 fish.¹³ The statewide harvest by species was as follows: 420,579 sockeye (41.9 percent), 239,648 chum (23.9 percent), 166,593 chinook (16.6 percent), 109,172 coho (10.9 percent), and 67,929 pink salmon (6.8 percent).

In 2003, fisheries in seven management areas accounted for 90.4 percent of the total statewide subsistence salmon harvest. These were Yukon (225,737 salmon; 22.5 percent of the state-wide total); Kuskokwim (194,474 salmon; 19.4 percent); Bristol Bay (131,667 salmon; 13.1 percent); Northwest¹⁴ (117,279

13 Personal use salmon harvests from Southeast Alaska, the Yukon Area, and the Chitina Subdistrict of the Upper Copper River are included. Personal use fisheries that take place in the nonsubsistence area of the Cook Inlet Management Area are not.

14 Subsistence harvest estimates for Northwest Alaska for 2003 do not include the regional center of Kotzebue, which since 1994 had been included in the harvest assessment program. Therefore, the estimated 2003 harvest total for Northwest as reported here is incomplete.

salmon; 1 1.7 percent); the Chitina Subdistrict of the Prince William Sound Management Area (89,332 salmon; 9.0 percent); Southeast Alaska (79,434 salmon; 7.9 percent)¹⁵; and the Glennallen Subdistrict of the Prince William Sound Management Area (68,612 salmon; 6.8 percent).

The Chitina Subdistrict fishery was classified as a personal use fishery in 1984, a subsistence fishery in 1985, personal use again from 1986 through 1999, subsistence again from 2000 through 2002, and personal use once again starting in 2003. Because Chitina was a personal use fishery in 1999, the first year of this report series, it was not included in that year's annual report. Chitina was added to the statewide report in 2000 because it had been reclassified as a subsistence fishery.¹⁶ Chitina and Glennallen, the two subdistricts of the Upper Copper River District, accounted for 15.8 percent of the statewide harvest in 2003, (157,944 salmon), in combination ranking third after the Kuskokwim and Yukon areas.



The largest subsistence harvests of chinook salmon in 2003 occurred in the Kuskokwim Area (72,498 salmon; 43.5 percent), followed by Yukon (56,872 salmon; 34.1 percent), Bristol Bay (21,231 salmon; 12.7 percent), Northwest (5,505 salmon; 3.3 percent), the Glennallen Subdistrict of the Prince William Sound Area (3,344 salmon; 2.0 percent), and the Chitina Subdistrict of the Prince William Sound Area (1,962 salmon; 1.2 percent).

15 As discussed further in Chapter XIII of the 2003 Annual Report, state subsistence regulations for the Southeast Region focus on sockeye salmon. Small harvests of chinook and coho are reported on permit returns as incidental to sockeye catches. The major portion of coho and chinook harvests for home use in Southeast is taken with rod and reel (sport gear). Thus the Southeast Region is particularly underrepresented in statewide overviews based on permit data.

16 In February 2003, the Alaska Board of Fisheries reversed its decision of December 1999 and reclassified the Chitina Subdistrict dip net fishery as a personal use fishery. Nevertheless, in future annual reports, the Chitina Subdistrict harvests will be included in the statewide subsistence salmon harvest totals. Also, beginning in 2002, the National Park Service, on behalf of the Federal Subsistence Board, began issuing federal subsistence permits for the Chitina and Glennallen subdistricts. Harvests reported from federal permit returns are included in the totals discussed in the 2003 Annual Report referenced in this section.

For sockeye salmon, the largest subsistence harvests in 2003 were in Bristol Bay (95,690 salmon; 22.8 percent of the statewide total), followed by the Chitina Subdistrict (84,790 salmon; 20.5 percent), the Southeast/Yakutat region (64,670 salmon; 15.4 percent), the Glennallen Subdistrict of the Prince William Sound Area (64,618 salmon; 15.4 percent), Kuskokwim (36,894 salmon; 8.8 percent), Kodiak (32,104 salmon; 7.6 percent), Chignik (10,989 salmon; 2.6 percent), and the Alaska Peninsula (10,103 salmon; 2.4 percent).

In 2003, as in past recent years, three areas dominated the subsistence chum salmon harvest:

Yukon (141,832 salmon; 59.2 percent of the statewide harvest), Kuskokwim (46,291 salmon; 19.3 percent); and Northwest (35,540 salmon; 14.8 percent). Of the statewide subsistence harvest of coho salmon in 2003, the greatest share was taken in the Kuskokwim drainage (38,791 salmon; 35.5 percent), followed by the Yukon (24,866 salmon; 22.8 percent), Northwest (16,580 salmon; 15.2 percent), Bristol Bay (7,816 salmon; 7.2 percent), Kodiak Island (6,096 salmon; 5.6 percent), Alaska Peninsula (4,266 salmon; 3.9 percent), and Southeast (3,052 salmon; 2.8 percent).

Finally, by far the largest portion of the statewide pink salmon subsistence harvest in 2003 occurred in Northwest Alaska (54,365 salmon; 80.0 percent), followed by Southeast (3,894 salmon; 5.7 percent), Yukon (2,167 salmon; 3.2 percent), Chignik (1,597 salmon; 2.4 percent), and the Port Graham Subdistrict of the Cook Inlet Management Area (1,572 salmon; 2.3 percent).

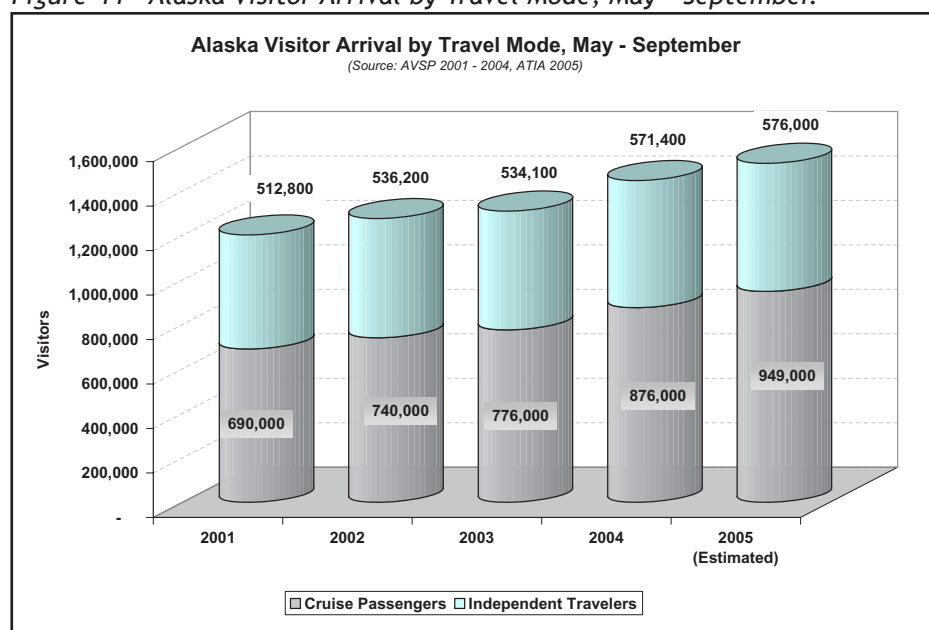
STATEWIDE SUBSISTENCE SALMON HARVESTS, 1994-2003

The following is a summary of historic subsistence and personal use salmon harvests for 1994 through 2003 based on annual harvest assessment programs. Harvest estimates for the Chitina Subdistrict have been included for all years, even though the fishery was classified as personal use in all of these years except 2000 through 2002. Although earlier estimates for many of the fisheries are available, 1994 marks the first year that data from all of the included fisheries were available and collected with methods comparable to those used today. According to data presented in the 2003 Annual Report, the downward trend in the statewide total over the ten-year period seems to have slowed in 2003. While the estimate for 2002 of 953,952 salmon was the lowest over the ten-year period and below the recent five-year average of 1,041,363 salmon, the estimate for 2003 of 1,003,920 is still below the five-year average but not by quite so great a number. Accounting for much of this decline was a drop in subsistence harvests in the Yukon Area (from 344,049 salmon in 1994 to 152,300 salmon in 2000 and 177,100 salmon in 2002; and the Kuskokwim Area (from 251,112 salmon in 1994 to 204,714 salmon in 2000 and 205,599 salmon in 2001. Subsistence salmon harvests in the Bristol Bay Management Area have also dropped substantially, from 157,787 in 1994 to 109,587 in 2002; the third lowest on record. Totals for 2003 are slightly higher than for 2002, though they are still significantly below the totals for years prior to 2002.

Tourism

Tourism has helped to diversify Alaska's economy and lower its dependence on the oil and gas industry. Since 1995, annual visitor growth has averaged four percent; in 2005, the visitor growth is expected to be slightly above the average, at five percent. Total 2005 arrival numbers are estimated at 1.8 million, of these, 1.5 million (about 83 percent) of Alaska's visitors arrive between May and September. The two major types of traveler are cruise and independent, and while each category continues to show steady growth since 2001, cruise ship passengers make up about 65 percent of total summer arrivals.

Figure 44 - Alaska Visitor Arrival by Travel Mode, May - September.

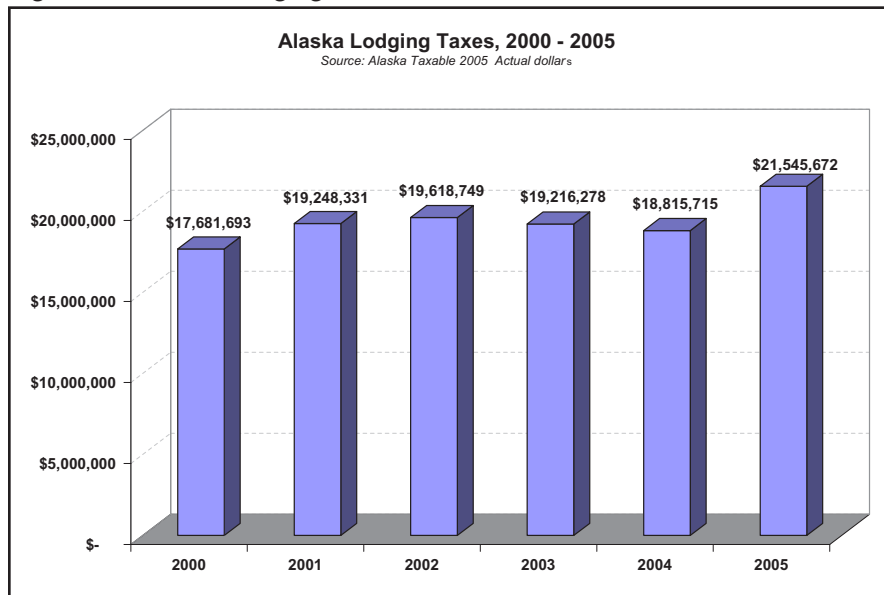


During the 2005 summer reporting period, cruise ship visitor numbers grew by eight percent to 950,000 compared with 876,000 the previous summer. Additionally, slightly more than 25 percent of these same cruise ship passengers continued on to communities in Southcentral and Interior Alaska. Economists estimate the cruise line industry accounted for one billion dollars of spending in the state during 2005.¹⁷ This amount does not include what is spent aboard the ships themselves, but what the crew and passengers spends around the state. The cruise industry's average annual employment in Alaska in 2005 totaled 12,400 direct jobs.

17 "Cruise Industry Brings in One Billion Dollars to State Economy." Alaska Business Monthly, June 2005.

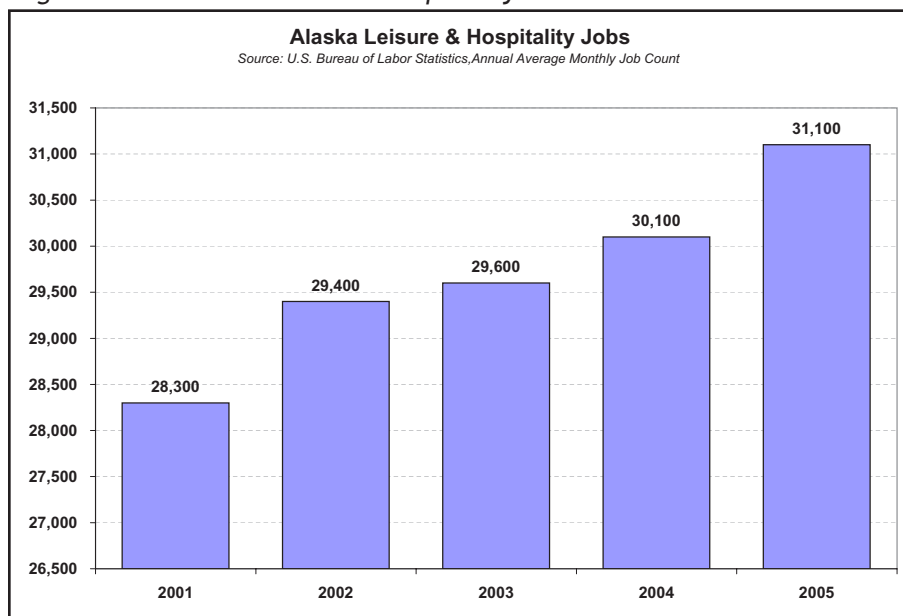
Recent survey data shows that one quarter of cruise ship passengers will stay between three and seven nights in Alaska lodging accommodations. Besides the economic benefits to lodge owners, revenues paid to local governments since 2000 have grown as a result of more visitors staying at many of the newly constructed facilities. In 2005, 42 Alaska communities collected a lodging tax at a rate ranging between three and ten percent and totaling \$21.5 million in tax revenues - a 15 percent increase over 2004.

Figure 45 - Alaska Lodging Taxes 2000 - 2005.



Leisure and Hospitality employment increased ten percent between 2001 and 2005.

Figure 46 - Alaska Leisure and Hospitality Jobs.



Eighty-five percent of visitors surveyed during the 2001 Alaska Visitor Statistics Program (AVSP) reported a strong interest in visiting small Alaska communities to learn more about the local history and culture. In 2005, financial assistance from the Federal Economic Development Administration (EDA) enabled state tourism staff to implement an Alaska rural tourism development program. Building on local community interest and data supplied by a first of its kind rural tourism visitor survey, local businesses from four regions of the state are currently taking advantage of the job training, marketing, and industry networking resources available in the development program.¹⁸ Among the many demographic findings, the survey shows that the average non-cruise visitor party comprising 2.7 people stays an average of twelve and one half days in rural Alaska and spends about \$4,000. By comparison, the urban non-cruise party of 2.3 people, stayed nine nights and spent on average approximately \$2,000. Total spending for both types of visitors do not include transportation costs to or from Alaska.



CHALLENGES FACING THE TOURISM INDUSTRY

While total visitor numbers to Alaska have increased over the years, essentially all visitor growth in recent years is attributable to the cruise sector. The stagnant or in some cases, declining visitor growth rate in non-cruise visitors is cause for serious concern for the Alaska visitor industry.

Nonetheless, the 2006 cruise ship season is not expected to sustain the record breaking visitor numbers of 2005. Crystal Cruise Lines will no longer bring ships to Alaska and Norwegian Cruise Lines will drop one ship from its fleet. Holland America, however, will add one vessel. Overall visitation is expected to remain

¹⁸ The following four regions are presently participating in this effort: (1) Copper River Area; (2) Central Southeast; (3) Bethel Region; and (4) Bering Strait Region.

stable; however some Southeast communities such as Juneau and Ketchikan will see fewer visitors than in 2005. As an emerging cruise ship destination, Prince Rupert, B.C. may be drawing away some of the visitation to Southeast Alaska communities.

Rural Alaska remains highly undeveloped in tourism and transportation infrastructure, as well as having in place established mechanisms for managing and promoting tourism. Rural areas have also been hit hard by the downturns in the resource-based industries and they need the diversification that participating in the tourism industry can bring. A growing number of rural communities are looking to tourism to help bolster their economic development goals. Alaska's ability to attract and hold visitors requires investments in attractions, businesses and services, as well as infrastructure.

One national trend that may impact travel to Alaska is that consumers continue to spend beyond their earnings, using savings, borrowing, or home equity to finance their spending. The Travel Industry Association of America predicts that the trend will eventually have to stop and that this coming year may be characterized by very different travel spending patterns of affluent travelers versus that of middle- and lower income households (source: TIA Travel Indicators, January 2006).

Internationally and in Alaska, there is continued concern regarding the Western Hemisphere Travel Initiative that will require passports and/or other secure documentation of travelers entering the U.S. from the Western Hemisphere. The impact on travel to Alaska by all modes of travel could be significant.

Short term challenges affecting Alaska's tourism industry remain focused on growth:

- ★ better public awareness of the importance of tourism to Alaska;
 - ★ addressing the issue of growing decline of Alcan Highway visitor traffic;
 - ★ increasing visitor access to public lands; and
 - ★ better strategies aimed at offsetting the affects of rapidly increasing fuel costs on local and domestic traveler packages.
-

Wood Products

Alaska's timber industry has struggled over the last 12 years; however, the industry is beginning a slow recovery and is slowly reaping the benefit of Alaska's timber resources. Over the past decade, the demise of the pulp mills in Alaska and reduced pulp production in the Pacific Northwest states and western



Canada has greatly reduced the market in Pacific Rim countries. In addition, there are also reduced markets for wood chips, the main products produced from low-grade logs and sawmill residues.

Alaska's timber regions are managed by four landhold-

ers: Federal government (51 percent), State, University and local governments (25 percent), Native Corporations (23.6 percent), and other private landowners (0.4 percent). Most of the commercial timber harvest is in the coastal zone, primarily on Federal and Native Corporation land.

A 2004 report commissioned by Southeast Conference, *Timber Market Update and Analysis of Potential for an Integrated Southeast Alaska Timber Industry*, found that the closure of high-grade dissolving pulp mills in Sitka (1993) and Ketchikan (1997) led to the loss of more than 2,000 direct jobs in the decade ending in 2002. The reduction of available timber from the Tongass National Forest during that decade led to a loss of annual payroll totaling more than \$100 million.

From 1994 - 1999 the average statewide total timber harvest on federal lands was 167 metric million board feet (mmbf). From the period between 2000 - 2005, the average dropped to 63 mmbf. During this period, major mill closures due to mergers and consolidations in Southeast Alaska, eliminated major local processors. In addition, overseas competition from places like Russia, China, and British Columbia added to downturn in the timber industry.

Figure 47

Alaska Region Timber Volume History (MMBF)

Fiscal Year ³	Allowable Sale Quantity		Offer ¹			Sold ²			Harvest ²		
	Tongass NF	Chugach NF	Tongass NF	Chugach NF	Region ⁴	Tongass NF	Chugach NF	Region ⁴	Tongass NF	Chugach NF	Region ⁴
1994	450	11	277	1	278	269	3	272	276	7	282
1995	450	11	290	6	296	261	4	265	221	2	223
1996	450	11	266	2	268	227	3	230	120	3	123
1997	450	11	162	15	177	202	10	212	107	2	109
1998	267	11	187	0	187	24	0	24	120	1	121
1999	267/187 ⁵	11	115	1	116	61	0	62	146	0	146
2000	187 ⁵	11	85	0	85	170	0	171	147	0	147
2001	187/267 ⁵	11	68	0	68	50	0	50	48	0	48
2002	267	11	57	0	57	24	0	24	34	0	34
2003	267	0	89	0	89	36	0	37	51	0	51
2004	267	0	73	0	73	87	0	87	46	0	46
2005	267	0	110	0	110	65	0	65	50	0	50

1 Source: Periodic Timber Sale Accomplishment Reports

2 Source: Timber Cut and Sold Reports and for 1994-97 Sales Tracking and Reporting System

3 Fiscal Year: October 1 to September 30 the following year.

4 Region column data may not appear to be correct due to rounding.

5 In May 1997, the Tongass Plan was revised, with a resulting allowable sale quantity of 267 MMBF. In April 1999, a new Record of Decision was issued with a resulting allowable sale quantity of 187 MMBF. In March 2001, the 1999 ROD was vacated by the U.S. District Court, District of Alaska and the allowable sale quantity reverted back to 267 MMBF.

Opportunities for revitalization of the timber industry are emerging outside the perimeter of the coastal Sitka spruce-hemlock forests of Southeast, Prince William Sound, Afognak Island, and the eastern side of the Kenai Peninsula. Alaska boasts multiple millions of acres of boreal (northern) forest lands. The boreal forests are characterized by large commercial stands of white spruce and vast hardwood resources. The hardwood component, primarily paper birch and aspen, represents a largely untouched economic resource. Over the past three years, two major efforts have emerged, wood chips for export to Asia, and birch boards, which may breathe new life into Alaska's forest products industry. As these projects mature, potential new jobs and investments in infrastructure may bring benefits to communities in Southcentral Alaska and the Tanana Valley.

In the Matanuska-Susitna Borough (Borough), one company has invested approximately \$14 million in infrastructure and equipment to harvest, chip and market Alaska wood fiber. The company negotiated a 30-year lease with the Borough to occupy 18 acres at the new port facility near Point Mackenzie, becoming the port's anchor tenant. The birch chips are sold to a Korean cardboard manufacturer and the spruce chips go into Japanese newsprint. Alaska's white spruce meets demanding Japanese quality standards providing a bright chip that requires very little bleaching making it environmentally desirable as well. Currently, the majority of the timber going into chips comes from Native Corporation lands. The State Division of Forestry is working with Borough officials to provide roads and bridges needed to open up both state and Borough land for future home sites and agricultural development.



Another potential opportunity for timber-related employment is in the greater Tanana Valley. In December 2003, the State Departments of Natural Resources and Commerce collaborated with the Fairbanks North Star Borough and Native regional and village corporations in the Fairbanks area to put out a prospectus promoting the timber resources of the region. The intent is to attract a major forest product companies and help create a new timber-based economy. A recent study conducted for the University of Fairbanks-Sitka Forest Products Program, looks at the growing Asian market for medium-density fiberboard (MDF) and concludes that a significant niche market exists for this product, especially in China.

The United States Forest Service (USFS) Sitka Wood Utilization Center reports an annual lumber market in Alaska of approximately 100 mmbf, a second wood product market in Alaska estimated 90 million square feet of engineered wood products, and 40,000 short tons of other manufactured wood products. All of these products are currently imported to Alaska. Additionally, Alaska annually imports approximately 10 metric million board feet of treated wood for docks,

wharfs, piling, decks, posts, lumber, and timbers. The state also imports an additional ten million board feet of railroad ties. The wood from the Tongass has desirable qualities including breaking and stiffness strengths and the industry is currently applying for wood grades from the American Lumber Standards Committee for Alaska yellow cedar, western hemlock and Sitka spruce.

Harvest projections described below are only one piece of information considered by the Forest Service in developing a timber sale program that is consistent with the annual market demand for timber from the Tongass Forest.

Figure 48

Projected National Forest Timber Harvest in Alaska (MMBF)

Year	Low Scenario	Medium Scenario	High Scenario
1998	77.3	86	112.2
1999	86.4	99.3	127.9
2000	95.5	115.9	142.7
2001	104.6	129	157.7
2002	113.7	134.9	173.1
2003	122.8	140.8	188.9
2004	131.9	146.5	205
2005	131.9	152.2	221.4
2006	131.9	157.8	238.2
2007	132	163.4	255.3
Average	112.8	132.6	182.2

Source: Timber Products Output and Timber Harvests in Alaska: Projections for 1997-2010
USDA Pacific Northwest Research Station, 1997

CHALLENGES FACING THE WOOD PRODUCTS INDUSTRY

Together, the State and Alaska's wood products industry are working to increase the amount of manufacturing taking place in the state. Increasing the amount of locally processed timber results in more Alaskans employed for each acre harvested. According the Department of Natural Resources (DNR), between FY 1998 and FY 2005 the Division of forestry offered an average of 84 sales and 38.7 mmbf per year. During this same period of time, Alaska processors purchased a total of nearly 130 mmbf of timber directly from the state. The Tongass can potentially sustain a workforce and industry on a larger scale than is currently present. Accordingly, the Murkowski Administration is currently preparing a Memorandum of Understanding with the Forest Service calculated to have state and federal forest officials work together to make more economic timber available.

Traditionally, Japan has purchased nearly 80 percent of Alaska's total wood products exports. While Japan continues to be Alaska's primary export partner, its share of total export declined slightly this year. As a result, exporters must continue to look to other markets in order to diversify their customer base.

Another challenge is for those communities that are directly impacted by forest receipts. The National Forest Receipts Program expires in 2007; it is unclear how qualified communities will address the funding gap for schools, roads and other projects that will result from the expiration of the program.

Appendix A

United States Exports (Origin of Movement - Total) To _World Via Alaska Commodity: All

YTD Comparrison: January - December

Description	U.S. Dollar			% Share			% Change 2005/2004
	2003	2004	2005	2003	2004	2005	
Commodities	2,738,557,708	3,156,910,610	3,591,882,156	100	100	100	13.78
Fish And Seafood	1,394,992,347	1,684,288,304	1,962,784,766	50.94	53.35	54.65	16.53
Minerals	413,748,504	505,437,485	510,761,313	15.11	16.01	14.22	1.05
Energy	305,057,048	376,146,228	335,246,255	11.14	11.92	9.33	-10.87
Fertilizers	198,980,375	231,146,438	275,205,845	7.27	7.32	7.66	19.06
Aircraft/Spacecraft	18,423,420	11,506,990	144,317,679	0.67	0.36	4.02	1,154.17
Wood	152,201,924	104,518,541	132,551,433	5.56	3.31	3.69	26.82
Precious Stones/Metals	94,339,022	90,027,612	84,211,749	3.44	2.85	2.34	-6.46
Machinery	28,769,185	33,128,167	36,702,923	1.05	1.05	1.02	10.79
Food Waste; Animal Feed	41,275,736	33,297,836	34,094,542	1.51	1.05	0.95	2.39
Electrical Machinery	9,681,404	8,572,887	12,347,757	0.35	0.27	0.34	44.03
Optic/Nt 8544;Med Instr	25,801,221	14,434,653	9,434,450	0.94	0.46	0.26	-34.64
Prepared Meat/Fish/Etc	5,528,160	7,794,655	9,264,879	0.2	0.25	0.26	18.86
Fats And Oils	5,437,784	5,593,098	8,113,446	0.2	0.18	0.23	45.06
Aluminum	2,146,493	10,086,013	5,223,032	0.08	0.32	0.15	-48.22
Vehicles/ Not Railway	2,051,553	2,378,094	4,140,921	0.07	0.08	0.12	74.13
Iron/Steel Products	5,759,148	2,489,609	3,891,301	0.21	0.08	0.11	56.3
Misc. Chemical Products	1,118,318	502,453	3,852,478	0.04	0.02	0.11	666.73
Other Of Animal Origin	4,601,156	3,029,710	3,213,589	0.17	0.1	0.09	6.07
Furniture And Bedding	477,204	548,620	2,035,703	0.02	0.02	0.06	271.06
Rubber	3,432,695	3,613,681	1,684,484	0.13	0.11	0.05	-53.39
Iron And Steel	2,884,872	577,571	1,178,404	0.11	0.02	0.03	104.03
Plastic	2,424,694	2,098,621	1,124,131	0.09	0.07	0.03	-46.43
Ships And Boats	528,561	379,284	927,357	0.02	0.01	0.03	144.5
Special Other	5,593,321	4,890,276	910,941	0.2	0.15	0.03	-81.37
Tool/Cutlry/ Of Base Mtls	299,923	764,627	824,062	0.01	0.02	0.02	7.77
Art And Antiques	529,447	210,900	496,937	0.02	0.01	0.01	135.63
Railway;Trf Sign Eq	23,194	83,387	483,402	0	0	0.01	479.71
Furskin+Artificial Fur	253,784	440,027	458,452	0.01	0.01	0.01	4.19
Misc Textile Articles	264,594	35,060	458,217	0.01	0	0.01	1,206.95
Misc Grain/Seed/Fruit	31,050	104,249	412,486	0	0	0.01	295.67
Meat	1,458,726	1,219,320	394,638	0.05	0.04	0.01	-67.63
Soap/Wax/Et;Dental Prep	1,076,262	304,872	349,437	0.04	0.01	0.01	14.62
Beverages	54,682	61,802	348,959	0	0	0.01	464.64
Salt;Sulfur;Earth/Stone	95,862	425,655	343,302	0	0.01	0.01	-19.35
Misc Art Of Base Metal	143,304	96,109	334,277	0.01	0	0.01	247.81
Copper+Articles Thereof	118,152	27,891	227,990	0	0	0.01	717.43

Appendix A, Continued

Description	U.S. Dollar			% Share			% Change 2005/2004
	2003	2004	2005	2003	2004	2005	
Arms And Ammunition	1,736,311	7,757,577	227,147	0.06	0.25	0.01	-97.07
Pharmaceutical Products	10,500	366,723	221,137	0	0.01	0.01	-39.7
Paper/Paperboard	732,664	487,635	210,141	0.03	0.02	0.01	-56.91
Organic Chemicals	572,529	563,762	208,361	0.02	0.02	0.01	-63.04
Ceramic Products	17,589	22,321	207,940	0	0	0.01	831.59
Knit Apparel	108,981	199,642	194,843	0	0.01	0.01	-2.4
Glass And Glassware	94,344	35,346	188,631	0	0	0.01	433.67
Lead	0	0	167,500	0	0	0	
Preserved Food	28,319	14,515	154,404	0	0	0	963.75
Inorg Chem;Rare Erth Mt	324,990	3,474,597	152,984	0.01	0.11	0	-95.6
Book+Newspapr; Manuscrpt	234,060	123,954	141,638	0.01	0	0	14.27
Edible Fruit And Nuts	19,050	36,686	135,812	0	0	0	270.2
Tanning/Dye/Paint/Putty	93,566	8,014	115,984	0	0	0	1,347.27
Vegetables	71,950	459,600	112,260	0	0.01	0	-75.57
Textile Floor Coverings	4,492	0	105,252	0	0	0	
Woven Apparel	15,262	44,443	92,102	0	0	0	107.24
Manmade Staple Fibers	0	5,969	81,276	0	0	0	1,261.64
Knit/Crocheted Fabrics	0	0	73,943	0	0	0	
Cereals	506,989	46,407	71,297	0.02	0	0	53.63
Photographic/Cin- ematogr	3,000	5,000	66,091	0	0	0	1,221.82
Miscellaneous Food	1,935,805	1,283,762	57,817	0.07	0.04	0	-95.5
Miscellaneous Manufact	11,442	62,711	54,897	0	0	0	-12.46
Sugars	9,423	11,540	53,000	0	0	0	359.27
Hides And Skins	6,380	320,546	49,373	0	0.01	0	-84.6
Cotton+Yarn/Fabric	476,524	73,470	47,728	0.02	0	0	-35.04
Leathr Art;Saddlry;Bags	25,608	88,820	45,749	0	0	0	-48.49
Musical Instruments	172,313	15,250	35,329	0.01	0	0	131.67
Manmade Filament/Fab- ric	0	0	33,199	0	0	0	
Clocks And Watches	256,234	49,377	29,680	0.01	0	0	-39.89
Milling;Malt;Starch	0	0	29,338	0	0	0	
Live Animals	0	64,448	29,273	0	0	0	-54.58
Footwear	107,962	14,195	28,979	0	0	0	104.15
Spices/Coffee And Tea	0	0	23,000	0	0	0	
Baking Related	59,930	0	11,040	0	0	0	
Impregnatd Text Fabrics	43,022	0	9,882	0	0	0	
Zinc+Articles Thereof	0	0	9,568	0	0	0	
Dairy/Eggs/Honey/Etc	31,003	17,919	8,997	0	0	0	-49.79
Albumins;Mod Strch;Glue	40,324	69,287	7,564	0	0	0	-89.08

Appendix A, Continued

Description	U.S. Dollar			% Share			% Change 2005/2004
	2003	2004	2005	2003	2004	2005	
Wadding/Felt/Twine/ Rope	29,462	91,834	7,350	0	0	0	-92
Toys And Sports Equipmt	521,599	121,692	6,703	0.02	0	0	-94.49
Straw/Esparto	8,469	0	4,692	0	0	0	
Perfumery/Cosmetic/Etc	270,218	193,978	4,142	0.01	0.01	0	-97.86
Spcl Woven Fabric/Etc	3,294	0	4,131	0	0	0	
Explosives	49,270	0	4,001	0	0	0	
Stone/Plastr/Cement/ Etc	185,002	493,325	3,300	0.01	0.02	0	-99.33
Cocoa	0	0	3,144	0	0	0	
Animal Hair+Yarn/Fabrc	0	14,839	0	0	0	0	-100
Headgear	7,609	0	0	0	0	0	
Other Base Metals/ Etc.	86,273	10,701	0	0	0	0	-100
Live Trees And Plants	5,000	0	0	0	0	0	
Nickel+Articles Thereof	30,909	0	0	0	0	0	
Woodpulp/ Etc.	6,912	0	0	0	0	0	

Appendix B

Rank	Country	2002 Value	2003 Value	2004 Value	2005 Value	2002 % Share	2003 % Share	2004 % Share	2005 % Share	% Change, 2004 - 2005
---	Total Alaska Exports and % Share of U.S. Total	2,516	2,739	3,157	3,592	0.4	0.4	0.4	0.4	13.8
---	Total, Top 25 Countries and % Share of State Total	2,480	2,686	3,106	3,530	98.6	98.1	98.4	98.3	13.7
1	Japan	1,105	1,032	1,190	1,181	43.9	37.7	37.7	32.9	-0.8
2	Korea, South	417	567	580	684	16.6	20.7	18.4	19	17.9
3	China	148	154	242	337	5.9	5.6	7.6	9.4	39.6
4	Canada	155	231	247	222	6.2	8.4	7.8	6.2	-10.2
5	Federal Republic of Germany	118	113	147	180	4.7	4.1	4.6	5	22.9
6	Mexico	63	72	108	166	2.5	2.6	3.4	4.6	53.9
7	Netherlands	83	97	92	114	3.3	3.5	2.9	3.2	23.7
8	Switzerland	47	94	93	103	1.9	3.4	2.9	2.9	11.6
9	Singapore	11	5	3	77	0.4	0.2	0.1	2.1	(Z)
10	Spain	68	38	70	71	2.7	1.4	2.2	2	2.1
11	Hong Kong	15	50	28	49	0.6	1.8	0.9	1.4	71.4
12	Belgium	50	51	53	38	2	1.9	1.7	1.1	-27.4
13	Portugal	18	12	31	36	0.7	0.5	1	1	14.8
14	France	25	19	39	34	1	0.7	1.2	0.9	-12.2
15	Australia	22	17	23	33	0.9	0.6	0.7	0.9	42.6
16	Thailand	31	33	32	30	1.2	1.2	1	0.8	-6.3
17	Italy	20	17	2	27	0.8	0.6	0.1	0.8	(Z)
18	Norway	20	16	32	25	0.8	0.6	1	0.7	-20.2
19	Finland	0	16	19	22	0	0.6	0.6	0.6	11.1
20	United Kingdom	24	13	12	21	1	0.5	0.4	0.6	78.7
21	Chile	0	5	12	19	0	0.2	0.4	0.5	51.4
22	Bulgaria	0	0	21	18	0	0	0.7	0.5	-11.7
23	Taiwan	25	18	20	17	1	0.7	0.6	0.5	-13.8
24	Lithuania	9	7	7	16	0.3	0.3	0.2	0.4	131.9
25	Denmark	6	10	6	11	0.3	0.4	0.2	0.3	102.3

'(Z)' indicates a percent change greater than 500.



The Division of Community Advocacy offers a plethora of online data and information resources to communities, agencies and the public. The following is a listing of some, but not all, of the Division's most prominent resources.



The Community Profiles Database. This database contains community profiles for more than 390 places in Alaska, the majority of which are communities. Information found in this database includes population, history, culture, facilities information, census data and much more. Visit the Community profiles Database at:

http://www.commerce.state.ak.us/dca/commdb/CF_COMDB.htm



The Municipal Officials Directory (MOD) Online System. This directory offers dynamic contact information for communities across the state, including local and regional contacts, municipal officials and employee listings. The system is updated continuously and has the ability to deliver requested queries to you in excel and in only a few minutes. You can visit the MOD online at:

<http://commerce.state.ak.us/dca/MOD/MOD.htm>



The Alaska Economic Development Resource Guide (EDRG). The EDRG is designed to bring together in one place an inventory of programs and services which can provide economic development assistance to Alaska communities and businesses. You can visit the EDRG at:

<http://www.commerce.state.ak.us/dca/edrg/EDRG.htm>



Capital Projects Database. The Capital Projects Database contains descriptions, funding levels and status for over 8,000 capital projects in Alaska communities. Like the MOD, the online system has the ability to deliver requested queries to you in excel and in only a few minutes. You can visit the Capital Projects Database at:

http://www.commerce.state.ak.us/dca/commdb/CF_RAPIDS.htm



Community Profile Maps. The Division provides mapping services that assist Department staff and communities in accomplishing the goals of increasing economic development and strengthening local governments in rural Alaska. Maps are produced to display land use, land suitability, land ownership, and the boundaries set out in ANCSA 14(c) land settlements. You can visit the Community Profile Maps at:

<ftp://ftp.dcbd.dced.state.ak.us/profiles/profile-maps.htm>



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