

Alaska Economic Performance Report 2006



Oil and Gas Industry



Agricultural Industry



Mining Industry



Tourism Industry



Wood Products Industry



Seafood Industry



Sarah Palin, Governor
Emil Notti, Commissioner

The 2006 Alaska Economic Performance Report covers a range of economic indicators, industries and government action. The 2006 data is incorporated when available, however, most recent data for particular items may be from earlier years (2004, 2005). Where possible, information is supplemented by forecasts plus and news and feature articles to reflect the most 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 2006.

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STATE OF ALASKA

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**STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU**

August 2007

Dear Alaskan,

Alaska's economy continues to grow and diversify. Through this dynamic, we are able to deliver on our mission to build trust; to create opportunities so that Alaskans have a chance to work; to fund essential services without unsustainable spending; and to help improve the success of our students, and make our homes and communities places of safety, prosperity and peace.

In 2006, the state economy reflected the hard work and dedication of Alaskans across industries and regions. Our hard work resulted in continued growth of Alaska's Gross Domestic Product, 19 years of continued job growth, a stronger and more diverse footing in International Trade, and the strengthening of key industries such as mining, and oil and gas. Alaska's seafood industry experienced another good year; seafood exports in 2006 were worth an impressive two billion dollars. Alaska hosted more than 1.6 million out-of-state visitors between May and September, 2006. In addition, Alaskan ANCSA corporations continued their prominence at the national and international level; and, the Alaska Permanent Fund reached \$39 billion by late 2006.

While 2006 offered many opportunities, there are even more opportunities to come throughout 2007, as Alaskans take advantage of making the gas pipeline a reality, provide new job opportunities in key sectors, and foster an environment for a solid foundation in education and training for young Alaskans.

Sincerely,

A handwritten signature in blue ink, reading "Sarah Palin".

Sarah Palin
Governor

Table of Contents

A Note on Gross Domestic Product by State (GDP)	1
Executive Summary.....	2
Alaska's Gross Domestic Product	4
Population	6
Economic Diversity	10
ANCSA Corporations(1971 Alaska Native Claims Settlement Act Regional Corporations).....	11
Overview of Alaska Native Claims Settlement Act Corporations	12
Alaska Permanent Fund	13
Employment.....	15
Agriculture	17
Oil and Gas	19
Mining.....	23
Seafood	27
Subsistence.....	33
Tourism.....	34
Wood Products	36
International Trade.....	39

A Note on Gross Domestic Product by State (GDP)

This performance report uses **Gross Domestic Product by state**,¹(GDP) the state counterpart to the nation's gross domestic product. GDP by state is a measure based on national prices for the goods and services produced within a state. An industry's GDP by state includes the wages and salaries that workers earn, the income earned by individual or joint entrepreneurs as well as by corporations, and business taxes such as sales, property, and Federal excise taxes that count as a business expense.

GDP by state has its own revision schedule, and excludes the compensation and expenses of overseas federal civilian and military personnel, government consumption of fixed capital for military structures and military equipment, because none of these can be attributed to a particular state.²

Real GDP by state. The real estimates of gross domestic product by state are measured in chained³ (2000) dollars. Real GDP by state is an inflation-adjusted measure of each state's gross product that is based on national prices for the goods and services produced within the state.

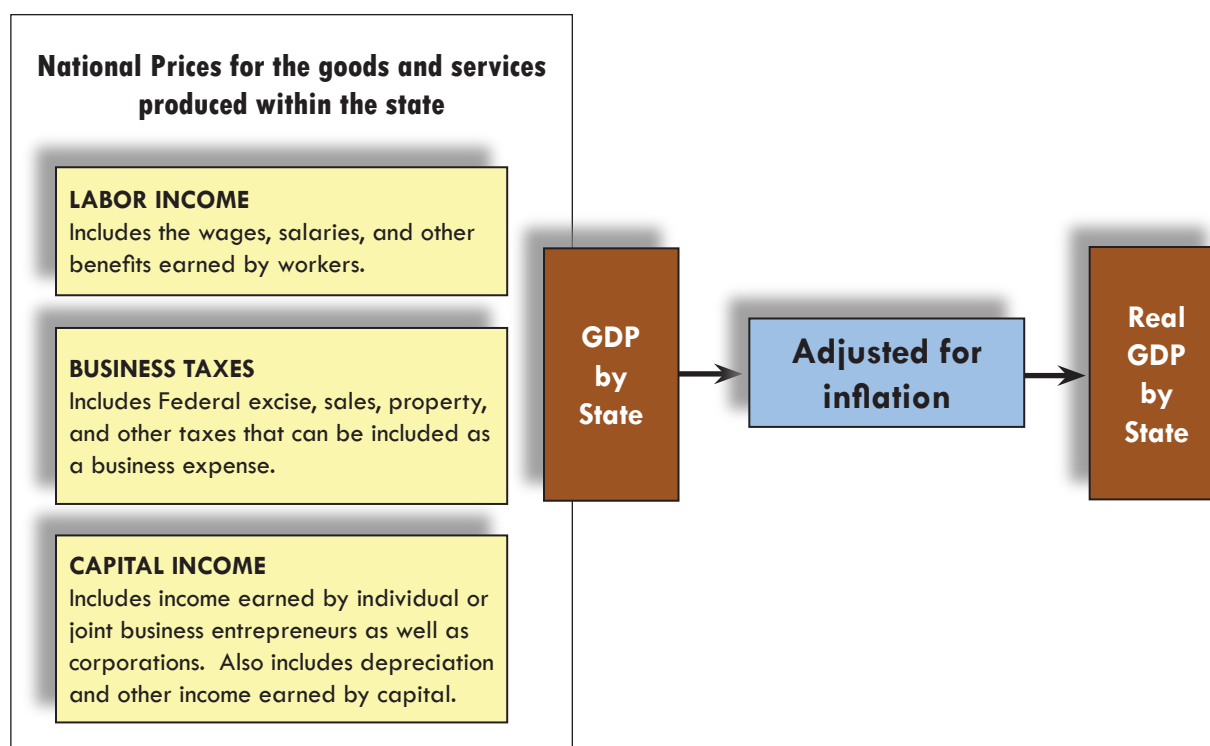


Figure 1. The difference between Gross Domestic Product by State and Real Gross Domestic Product by State.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

¹ Until July 2006, the Bureau of Economic Analysis used Gross State Product (GSP).

² U.S. Department of Commerce, Bureau of Economic Analysis, http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm.

³ Chained-dollar estimate. A measure used to approximate the chained-type index level (index that is based on the linking (chaining) of indexes to create a time series). Chained-dollar estimate is calculated by taking the current-dollar level of a series in the base period and multiplying it by the change in the chained-type quantity index number for the series since the base period. Chained-dollar estimates correctly show growth rates for a series, but are not additive in periods other than the base period.

Executive Summary

For the 16th year in a row, the state saw modest but steady economic growth; the main drivers being increased government activity (military, federal, state consumption expenditures, and gross investments), and the price of oil which rose dramatically as demand significantly outpaced supply. The state also kept up its trend toward an increasingly diversified and more stable economy.

Alaska's gross domestic product (GDP) by state grew by 0.5 percent in 2006, however real gross domestic product by state increased by 0.007 percent, and the state ranked 48th (from 50th in 2005) in the nation.

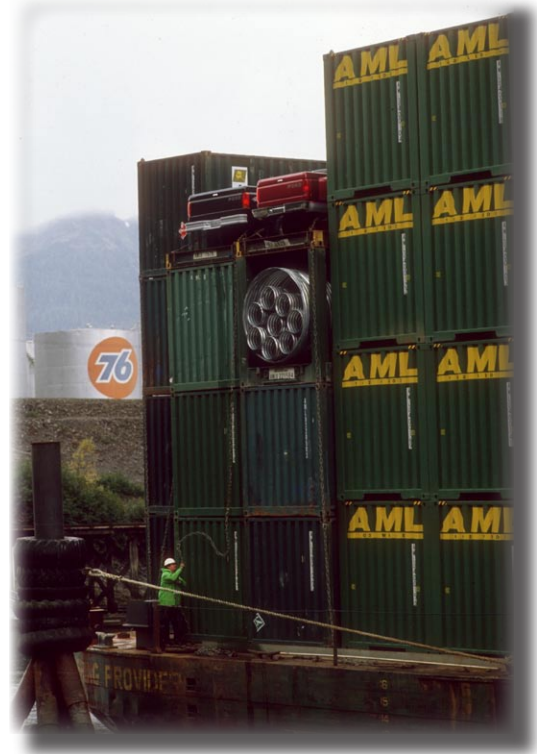
For the first time, Alaska exports constituted 10 percent of the state's GDP with a record of \$4 billion in goods and services exported to Asia, Europe, and Latin America.

From 2005 to 2006 the number of Alaska residents grew by 1.2 percent or 6,500, bringing the population to an estimated 670,053.⁴ The Matanuska-Susitna Borough continued to lead the state in the rate of population growth with 80,480 of Alaska's total population residing in this 24,681 square mile land area. From 2000 to 2006 the Matanuska-Susitna Borough population grew by 35.7 percent, compared to the 4.1 percent population growth experienced during the same time period by the Municipality of Anchorage. However, Anchorage remains Alaska's largest city with an estimated population of 282,813.

Alaska added jobs to its economy for the 19th consecutive year. Alaska employers paid nearly \$13 billion in wages, an increase of about \$700 million from 2005. Payroll growth was strongest in natural resources and mining, a category dominated by the oil and gas industry.

From 2005 to 2006 Alaskans' personal income (PI) increased by 5.9 percent to \$24,974 million, compared to nationwide PI, which rose by 6.3 percent during the same period. Alaska's per capita income (PCIP) climbed to \$37,271, a 4.8 percent increase from the previous year. Despite this increase, the state's ranking dropped to 16th in the nation, just behind Rhode Island (PCIP of \$37,388, a 5.8 percent change). The national average PCIP was \$36,276, a nationwide increase of 5.2 percent from 2005.

The state's agriculture experienced positive growth between 2004 and 2006. Key crops such as feed grain showed a \$258,000 increase, and hay, a \$170,000 gain. The highest commodity cash receipts were greenhouse and nursery crops (\$14,630,000) accounting for nearly half of the sector's output in 2006. Lack of in-state processing continues to result in high livestock prices.



⁴ US Census Bureau, *State and County Quickfacts 2006*, <http://quickfacts.census.gov/qfd/states/02000.html>.

The mining industry had a record year, grossing \$3.5 billion in earnings. This is nearly double 2005 earnings of \$1.8 billion and positions the industry for continued growth in 2007.

The pattern of rising oil prices continued in 2006 with political instability in major oil producing countries, tightening supply, and surging demand among emerging economies which drove the price of a barrel of oil over \$70, to a high of \$75 in August of the same year.

The Alaska Native Claims Settlement Act (ANCSA) corporations continued to be major economic players with total revenues among them of \$5.7 billion. Seven of Alaska's 13 ANCSA corporations made the 2006 *Alaska Business Monthly Magazine's Top 49ers*. Arctic Slope Regional Corporation was number one on the list, with gross revenues of \$1.6 billion in 2006.

The Alaska seafood industry experienced another good year in 2006, extending a trend begun four years ago. Total earnings and employment were some of the highest in recent years, and seafood exports, which were worth two billion dollars, accounted for half of Alaska's total export value. The four billion pounds of seafood harvested in 2006 worth \$1.4 billion to commercial fishermen was slightly better than 2005's harvest value of \$1.3 billion and the highest value received since 1999. This activity resulted in approximately 7,000 average monthly fish harvesting jobs with a peak summer total workforce of over 20,000 jobs.

In 2006, a total of 1.63 million out-of-state visitors came to Alaska between May and September.⁵ Of these, 958,900 were cruise ship passengers; 587,800 entered and exited by air; and 84,800 entered or exited by highway or ferry.

The Alaska Permanent Fund Corporation (APFC) reported that the Fund reached \$39 billion in late 2006⁶ and 602,350 eligible Alaskans received a dividend of \$1,106.96, up 31 percent from the 2005 dividend.



⁵ Alaska Visitor Statistics Program (AVSP) estimates.

⁶ 2006 Annual Report, Alaska Permanent Fund Corporation.

Alaska's Gross Domestic Product

Alaska's gross domestic product (GDP) by state grew from \$39 billion in 2005 to \$41 billion or by 0.5 percent, in 2006. The main drivers were government, oil and gas, professional and technical services sector, finance and insurance, and transportation and warehousing. Health care and social assistance, and information technology (IT) were the next contributing sectors.

Real gross domestic product by state (GDP adjusted for inflation) increased by 0.007 percent from \$29,112 to \$29,314 billion.

Alaska ranked sixth among the ten states with the highest GDP per capita of \$43,748, compared to the national average of \$37,714. Delaware led the nation with the highest per capita real GDP by state of \$59,288.

2006	Per capita real GDP by state (dollars)	Rank in the U.S.	Percent of the U.S.
United States	\$37,714		100
Delaware	\$59,288	1	157
Connecticut	\$50,332	2	133
Massachusetts	\$46,721	3	124
New York	\$46,617	4	124
New Jersey	\$44,885	5	119
Alaska	\$43,748	6	116
Colorado	\$41,798	7	111
Virginia	\$41,702	8	111
California	\$41,663	9	110
Minnesota	\$41,295	10	109

Figure 2. In 2006 Alaska ranked sixth among states with highest per capita GDP by state. Source: U.S. Department of Commerce, Bureau of Economic Analysis

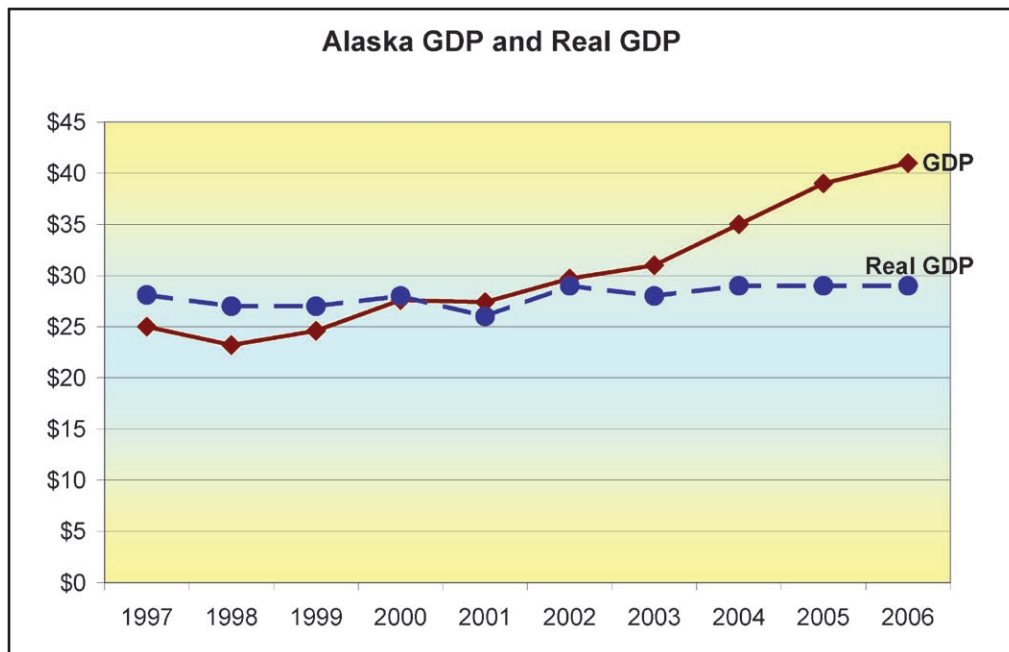


Figure 3. Alaska GDP and Real GDP by state. Source: U.S. Department of Commerce, Bureau of Economic Analysis

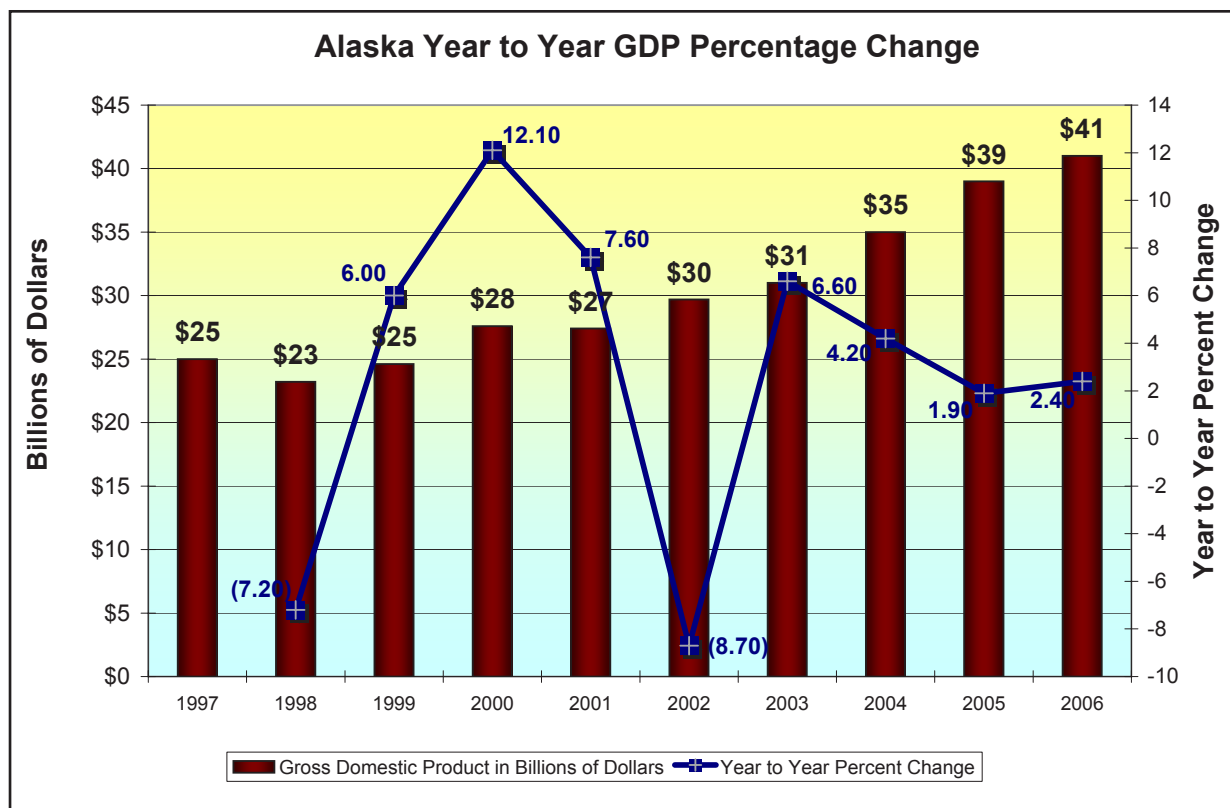


Figure 4. Alaska's GDP by state percentage change with revised 2004 and 2005 percentages. Source: U.S. Department of Commerce, Bureau of Economic Analysis

Population

The 2006 population gain in Alaska was 1.02 percent, compared to the 5.9 percent growth in the same period for the United States. According to U.S. Census data, the number of people living in the state climbed from an estimated 627,533 in July 1, 2000, to a provisional July 1, 2006, estimate of 670,053.

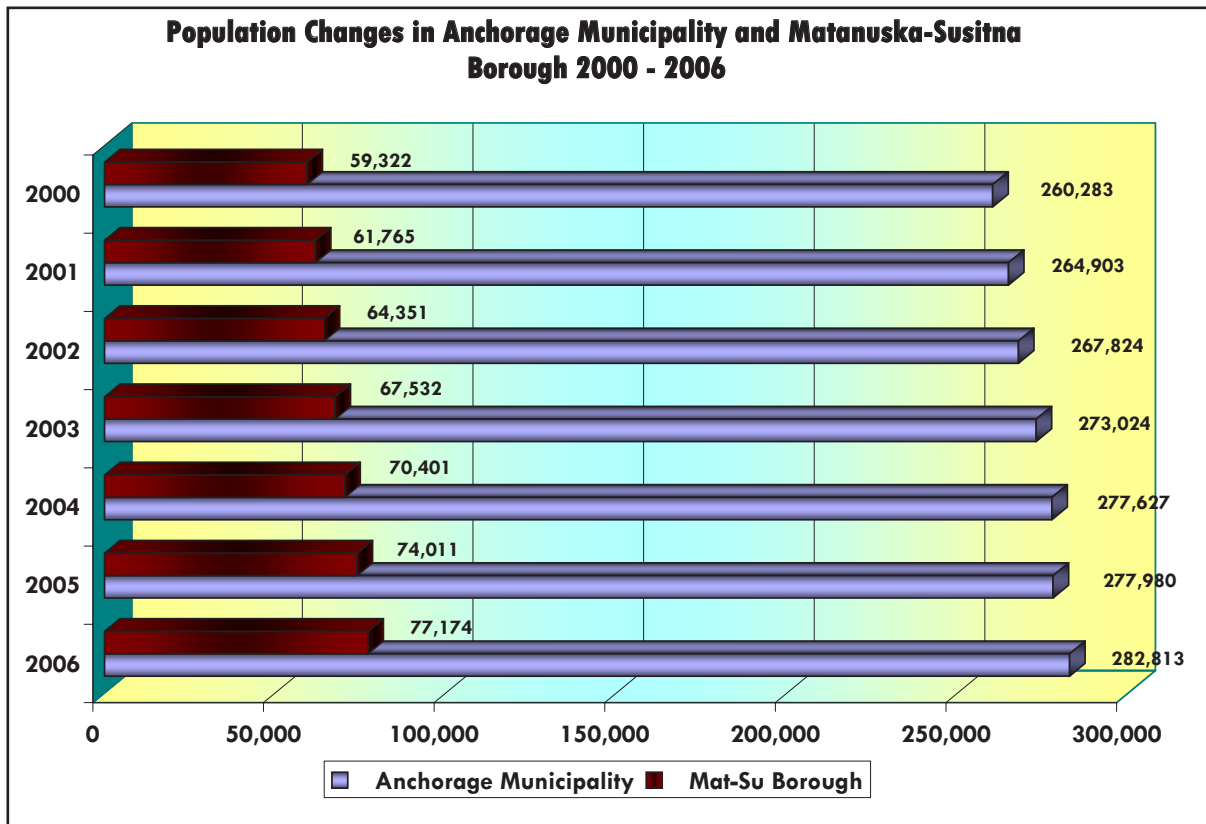


Figure 5. From 2000 - 2006 Anchorage Municipality and Mat-Su Borough were the fastest growing communities in the state. Source: U.S. Census Bureau and the Alaska Department of Labor & Workforce Development, Research and Analysis Section

Alaska still ranks 47th in the nation in terms of population, larger than North Dakota, Vermont, the District of Columbia, and Wyoming. Current growth in Alaska is primarily through natural increase (births minus deaths) and net migration (in-migration minus out-migration). In the early 1990s, Alaska added about 9,600 people each year through natural increase. A gradual decline in fertility and a gradual increase in mortality tied to an aging population have resulted in a slowdown in natural increase to about 7,300 persons per year.

Currently, Alaska's in- and out-migration are nearly equal, with an estimated 35,000 persons migrating to and from Alaska each year.⁷

⁷ These estimates are for resident population, including troops deployed overseas who are counted as being in Alaska.

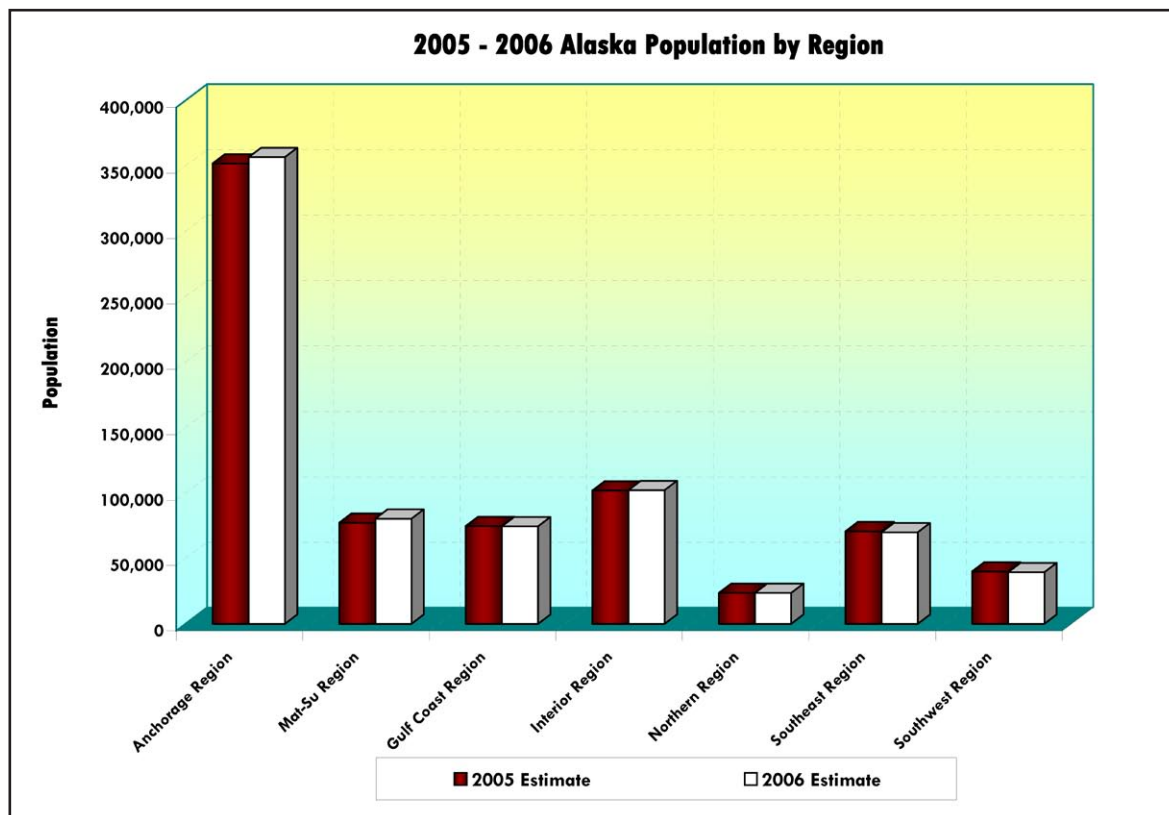


Figure 6. Anchorage and the Mat-Su Valley regions grew in 2006, while the other regions lost population. Source: U.S. Census Bureau and the Alaska Department of Labor & Workforce Development, Research and Analysis Section

Most of Alaska's boroughs and census areas have grown slowly or lost population between April 1, 2000 and July 1, 2006. The largest population increases have occurred in the Municipality of Anchorage (+22,530), Matanuska-Susitna Borough (+17,852), Fairbanks North Star Borough (+5,009), Kenai Peninsula Borough (+1,659), Bethel Census Area (+985), Southeast Fairbanks Census Area (+598), and Wade Hampton Census Area (+525). Population growth in the Municipality of Anchorage and the Matanuska-Susitna Borough accounted for roughly 81 percent of the growth. The Municipality of Anchorage made up 45 percent of the growth, with population gains in the Matanuska-Susitna Borough making up 36 percent.

The Matanuska-Susitna Borough continues to grow at an average annual rate of 4.2 percent, faster than any other region.

Anchorage remains Alaska's biggest city with an estimated 2006 population of 282,813. In the more recent 2005-2006 period, Anchorage gained 4,833 people from natural increase, while the Matanuska-Susitna Borough gained 3,163 people, mainly from in-migration from other parts of the state.

In all areas of Southeast except Haines, out-migration was greater than natural increase between 2000 and 2006. The Southeast region continued to have the largest overall decline during this period, with a natural increase of 3,105 people and a net out-migration of 6,134 people, an estimated net loss of 3,029 from 2000 to 2006. No area of Southeast experienced long term growth during this period, however, between 2005 and 2006 Haines Borough (+35) and Ketchikan Gateway Borough (+59) had slight gains.

Places with More than 2,000 in Population

Community	2006	2000	Change (%)
Anchorage Municipality	282,813	260,283	1.3
Juneau City & Borough	30,650	30,711	0.0
Fairbanks City	30,552	30,224	0.2
College	11,825	11,402	0.6
Knik-Fairview	11,238	7,049	7.3
Sitka City & Borough	8,833	8,835	0.0
Lakes	7,901	6,706	2.6
Ketchikan City	7,662	7,922	-0.5
Tanaina	6,987	4,993	5.3
Kalifornsky	6,914	5,846	2.7
Kenai City & Borough	6,864	6,942	-0.2
Wasilla City	6,775	5,469	3.4
Meadow Lakes	6,492	4,819	4.7
Kodiak City	5,937	6,334	-1.0
Bethel City	5,812	5,471	1.0
Palmer City	5,574	4,533	3.3
Homer City	5,454	3,946	5.1
Sterling	5,036	4,705	1.1
Eielson AFB	4,447	5,400	-3.1
Nikiski	4,179	4,327	-0.6
Barrow City	4,065	4,581	-1.9
Unalaska City	3,940	4,283	-1.3
Gateway	3,830	2,952	4.1
Soldotna City	3,807	3,759	0.2
Valdez City	3,690	4,036	-1.4
Nome City	3,540	3,505	0.2
Butte	3,166	2,561	3.4
Petersburg City	3,129	3,224	-0.5
Kotzebue City	3,104	3,082	0.1
Big Lake Area	3,082	2,635	2.5
Fishhook Area	2,917	2,030	5.7
Seward City	2,627	2,830	-1.2
Dillingham City	2,397	2,466	-0.5
Cordova City	2,211	2,454	-1.7
Wrangell City	1,911	2,308	-3.0

Figure 7.
Percentage change
in places with 2,000
or more persons,
2,000 - 2006.

Source: Estimates
from the Alaska
Department of
Labor & Workforce
Development,
Research and
Analysis Section

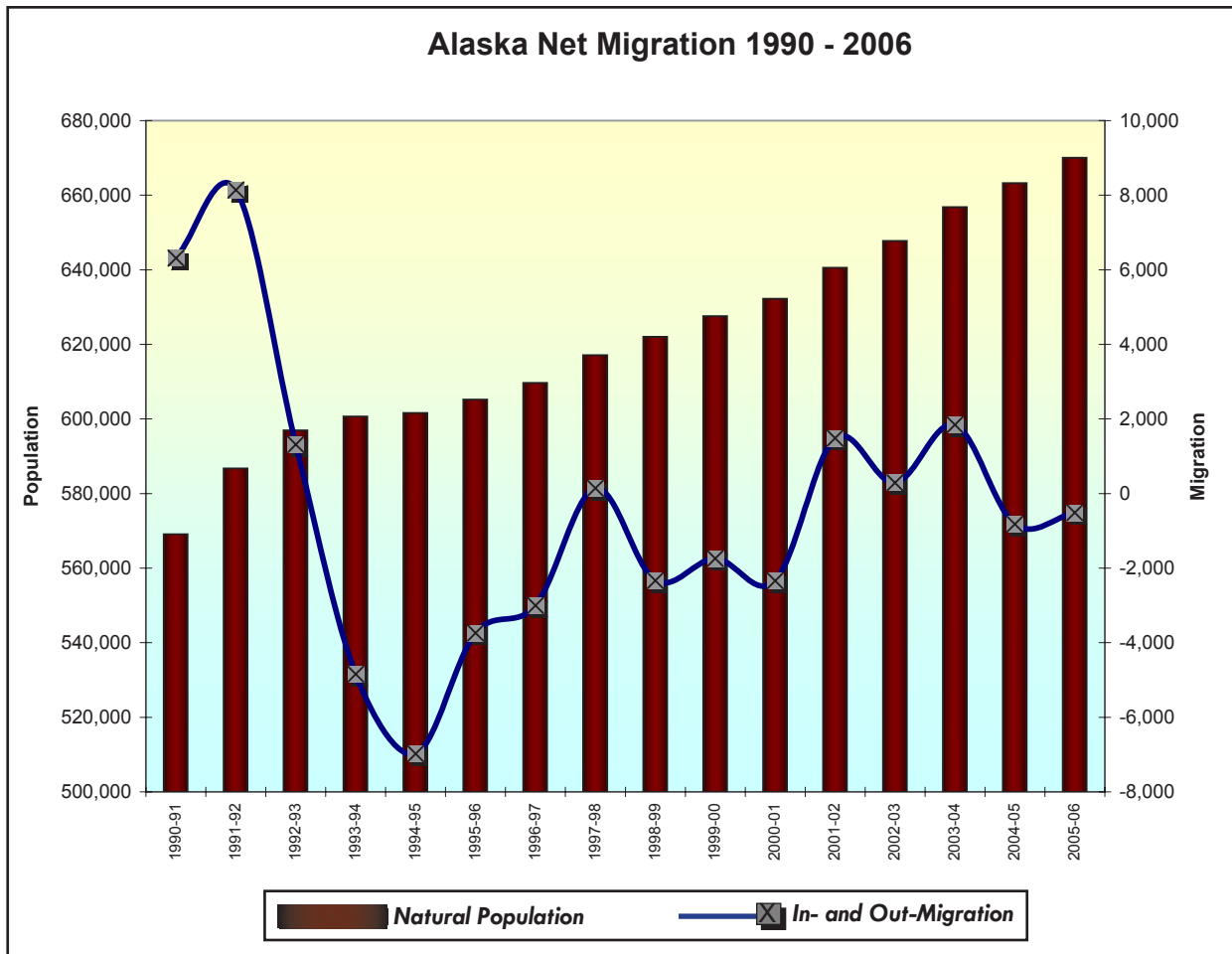


Figure 8. Alaska's population is showing a balanced ratio between natural increase/decrease and in/out migration.
 Source: Alaska Department of Labor & Workforce Development, Research and Analysis Section

Economic Diversity

Although in 2006, oil and gas, and government were still the main contributors to Alaska's GDP by state, the economy continued its trend towards diversification. In 2006 professional and technical services, and information technology increased their contribution to the state's GDP by 41 percent; finance, insurance, and real estate combined constituted 25 percent; health care and social assistance constituted 13 percent; construction represented 11 percent; and administrative and waste services constituted 10 percent, while agriculture and forestry were minor economic contributors to Alaska's GDP.

As the state's economy continues to expand and diversify, job opportunities have been created in a variety of other industries to service sectors such as oil and gas, health care, and construction. Much of that type of support work that would have likely gone to Seattle and other Lower 48 firms during the boom of pipeline construction in the 1970s and the oil-rich early 1980s, are now being handled by Alaska-owned businesses.

The State of Alaska does not have personal income tax or statewide sales taxes, therefore revenues for its treasury come from oil and gas, corporate taxes, licensing and permitting fees, estate, electric cooperative, telephone cooperative, vehicle rental taxes, tire fees, gaming fees, and regulatory cost charges, among other sources.

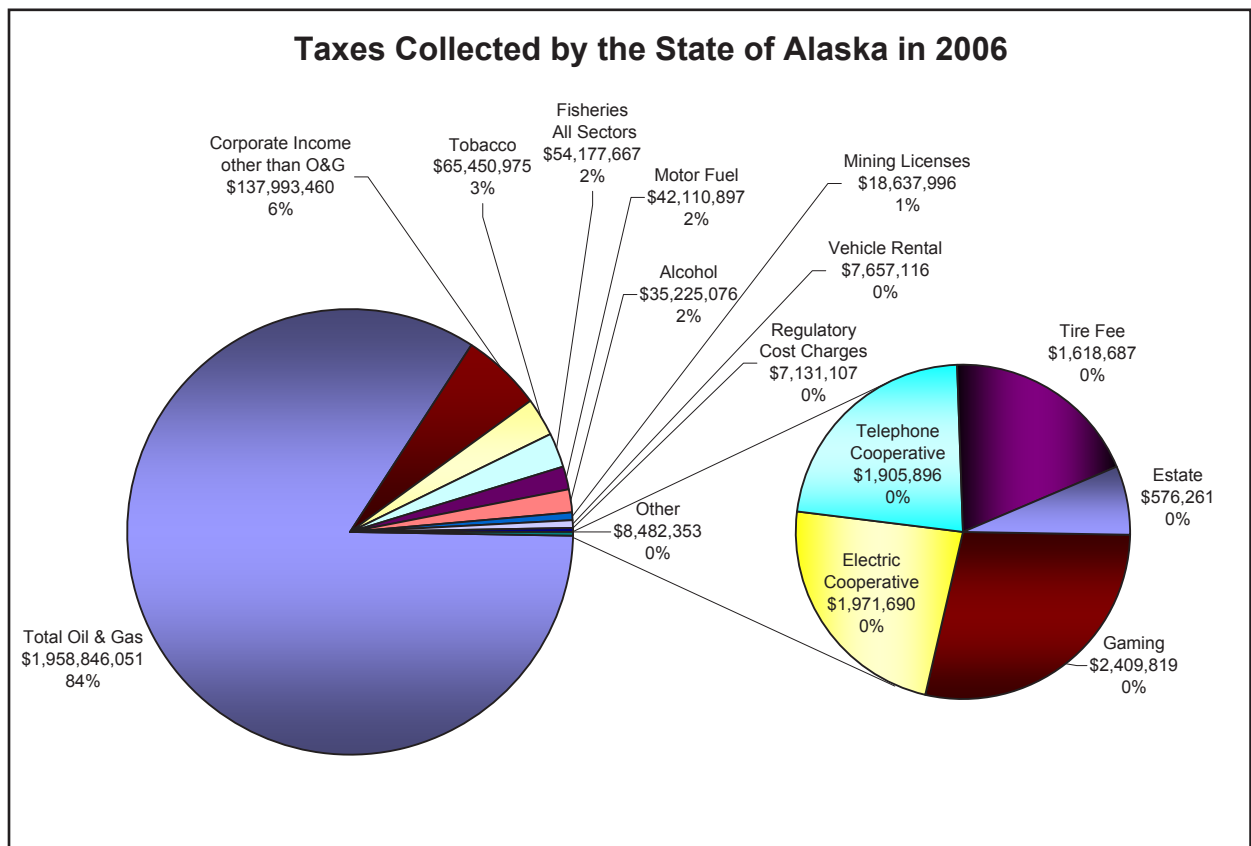


Figure 9. In 2006 the State of Alaska Department of Revenue Tax Division collected at total of \$2,335,792,338.

Source: Alaska Department of Revenue Tax Division 2006 Annual Report

ANCSA Corporations

(1971 Alaska Native Claims Settlement Act Regional Corporations)

The remarkable five-year growth of Alaska's ANCSA corporations has established them as major players in the state and national economy. With total revenues amongst them of \$5.7 billion, seven of Alaska's 13 ANCSA corporations made the Alaska Business Monthly Magazine's Top 49ers, a 20-year tradition that ranks the top 49 Alaska-owned companies every Fall. In 2006, the cut-off for companies making the list was \$36 million in gross revenues.

Arctic Slope Regional Corporation remained number one on the list, with \$1.6 billion in gross revenue. Chugach Alaska ranked number two, followed by Chenega Corporation; Cook Inlet Region Inc.; Afognak Native Corporation; Bristol Bay Native Corporation; and Olgoonik Corporation.⁸

In 2005, Federal contracts for ANCSA corporations totaled \$4.6 billion; \$2.9 billion of this from sole-source 8(a) contracts for domestic and overseas military, security, and construction projects. This constituted only a small amount of total federal procurement, however at the request of a bipartisan congressional group, the Government Accountability Office (GAO) looked into the issue of ANCSA corporations' sole source contracting privileges.⁹ The GAO report released in spring of 2006, found no fault with ANCSA corporations' practice of taking advantage of a loophole in 13 CFR 124 that allowed them to subcontract projects to non-Native, non-minority, and non-small business firms. The report recommended changes to the federal government's procurement infrastructure.¹⁰

The experience gained by the corporations from federal contracting has honed their management skills and competitiveness. They have been applying these skills to diversifying their portfolios by entering into non-government contracting and engaging in global business opportunities that can ensure their long-term standing as players in Alaska's economy. They are now investing in rural Alaska infrastructure such as low-cost Internet services to remote areas; subsidies for heating oil for residents within the regions; new job opportunities; creating scholarship funds; issuing benefits to elders, making financial donations to non-profits that provide health care and educational services to rural residents, and to developing culturally-based initiatives to strengthening their constituents identify and presence in the state.¹¹

In 2004, ANCSA corporations paid \$117.5 million in shareholder dividends; employed 25,090 Native Alaskans and non-Natives; and gave out \$5.4 million in scholarships and \$8.5 million to charities.

Challenges Facing the ANCSA Corporations

- To continue to diversify beyond federal contracting opportunities, such as investments in cutting edge technology and alternative energy products; producing innovative models to add value to natural resources in their regional lands; and establishing infrastructure necessary to carry out these innovative models.

⁸ 2006 Top 49ers Awards Luncheon, Anchorage Chamber of Commerce, printed program, October 2, 2006.

⁹ Increased Use of Alaska Native Corporations' Special 8(a) Provisions Calls for Tailored Oversight, U.S. Government Accountability Office, GAO-01-399 (2006), <http://www.gao.gov/new.items/do6399.pdf>.

¹⁰ Yang, J. J., *Small Business, Rising Giant: Policies and Costs of Section 8(a) Contracting Preferences for Alaska Native Corporations*, *Alaska Law Review*, Vol 23, Number 2,, Duke University School of Law.

¹¹ An example is the Alaska Marketplace, a collaboration between all ANCSA corporations, Alaska Federation of Native and several oil producers, that consists of a business plan competition that aims to catalyze rural economic development through innovation by supporting new businesses that emphasize cultural heritage as an integral component of the business. Under this theme over 150 Native and non-Native entrepreneurs submitted Business Idea Applications to the Marketplace in 2006.

- To access national and international networks cultivated through their contractual relationships at the same time they develop their human resources and transfer their global success models to Rural Alaska to promote economic sustainability.

Overview of Alaska Native Claims Settlement Act Corporations

ANCSA Corporation	Region	Money from ANCSA in 1972 (\$ Millions)	2005 Revenue (\$ Millions)	2005 Reported Profit (\$ Millions)	2005 Shareholders	2005 Dividend per 100 shares	Total Jobs Provided in 2005	2005 Jobs held by shareholders
Ahtna Inc.	Glennallen, Cantwell to Mentasta to Harvard Glacier, to Chitina River	\$13.0	\$95.3	\$0.7	1,186	\$0	863	110
The Aleut Corporation	Alaska Peninsula to Aleutian, Shumagin and Pribilof Islands	\$19.5	\$96.0	\$16.3	3,414	\$450	879	14
Arctic Slope Regional Corporation	North Slope region	\$22.5	\$1.6	\$127.5	9,000	\$2,861	7,618	593
Bering Straits Native Corporation	Nome and Seward Peninsula	\$38.2	\$21.7	\$15.0	6,365	\$0	332	82
Bristol Bay Native Corporation	34 million acres in the Bristol Bay region the size of Ohio	\$32.0	\$750.0	\$21.3	7,731	\$960	16	12
Calista Corporation	56,000 square miles in southwest Alaska	\$80.1	\$56.9	\$4.4	1,300	\$0	728	217
Chugach Alaska Corporation	Prince William Sound	\$11.5	\$785.6	\$38.6	2,200	\$4,150	6,500	145
Cook Inlet Region Incorporated	Represents Alaska's urban center 38,000 square miles in Southcentral Alaska.	\$34.4	\$97.5	\$22.3	7,300	\$2,971	502	53
Doyon Limited	Across Interior Alaska, Alaska Range, Alaska-Canada border, westward near Norton Sound	\$54.4	\$80.5	\$12.2	14,000	\$311	1,037	294
Koniag Incorporated	Kodiak Island	\$23.0	\$154.0	\$0.3	3,400	\$370	500	28
NANA Regional Corporation	38,000 square miles in Northwest Alaska	\$44.0	\$527.0	\$10.8	11,100	\$381	5,000	770
Sealaska Corporation	Largest landowner in Southeast Alaska	\$93.0	\$144.3	\$25.0	17,500	\$433	1,115	213
		\$465.6	\$2,810.4	\$294.0	84,496	\$12,887	25,090	2,531

Figure 10. Alaska's ANCSA Corporations are now significant players in the state's economy. Source: *Mastering the Game, Alaska Magazine*, January 2007, p. 38-39. The 13th Regional Corporation is not included.

*Most recent numbers available are for 2005.

Alaska Permanent Fund

The Alaska Permanent Fund (Fund) is a savings account geared to make money for Alaskans. It was established in 1976 by a Constitutional amendment that required 25 percent of mineral bonuses, royalties and related income be dedicated to a special fund to be put into income-producing investments. The Fund is operated as a public trust, much like trust funds established for pension funds.

The Fund's savings, investments, and assets are managed by the Alaska Permanent Fund Corporation (APFC), a state-owned corporation. The Permanent Fund Dividend (PFD) program is the actual disbursements of annual dividends to eligible Alaskans,¹² and is managed by the State of Alaska Department of Revenue, Permanent Fund Division.

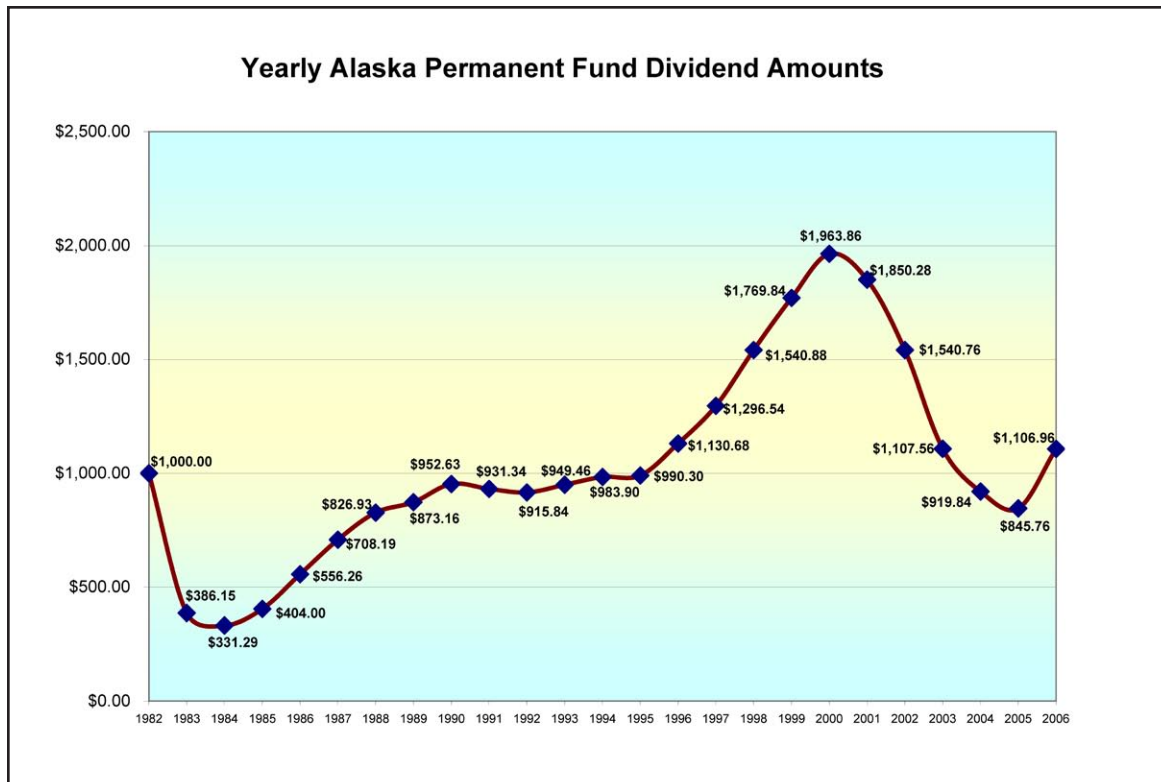


Figure 11. Value of dividend received by Alaskans since 1982. Source: Alaska Department of Revenue, Permanent Fund Dividend Program

¹² Eligibility includes the verifiable intent to remain an Alaska resident exclusively and indefinitely; no felony nor misdemeanor convictions or incarceration during the previous calendar year, or since 1997 in some cases; absent from the state no more than 180 days due to other than an allowable absence (school, military service); and physically present in Alaska during the previous year.

The Legislature may spend realized Fund investment earnings. Realized earnings consist of stock dividends, bond interest, real estate rent, and the income made or lost by the sale of any of these investment assets. Unrealized earnings - those resulting from the change in market value of assets that are held - cannot be spent. Most spending from the Fund has been for dividends to qualified Alaska residents.

Today, stocks comprise just over 50 percent of the Fund's market value. The value of the Fund reached \$35.7 billion in November 2006, up \$2.6 billion from 2005's ending market value.

Once Alaskans receive their individual dividends and the fund is inflation-proofed, remaining earnings are available for appropriations, providing another source of State funds if necessary. In 2006 the PFD was \$1,106.96, up 31 percent from 2005.

2006 Permanent Fund Reserved and Unreserved Funds

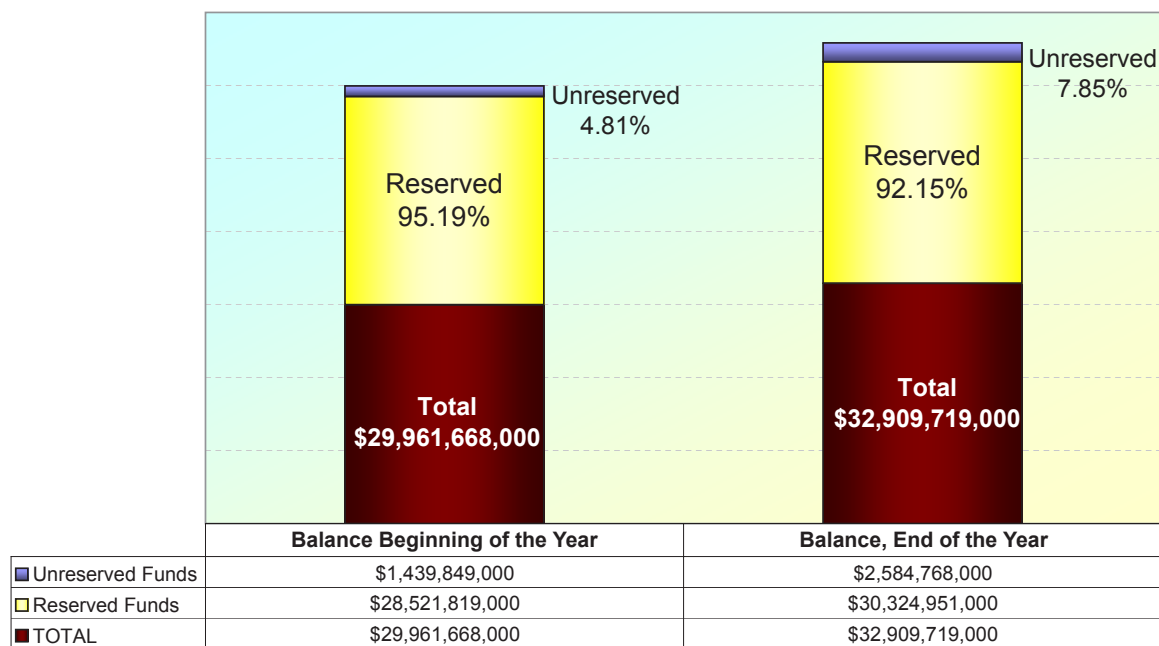


Figure 12. The Alaska Legislature can spend the unreserved funds, but reserved funds go back into the Fund.

Source: Alaska Permanent Fund Corporation

Employment

Alaska added jobs to its economy for the 19th consecutive year. In 2006 employers paid nearly \$13 billion in salaries and wages, an increase of about \$700 million from 2005. Professional and business services employers provided 24,000 or eight percent of the total jobs, \$1.1 billion in payroll. The increase in this sector was higher than that in construction, manufacturing, natural resources, or mining. The size of this sector's professional, scientific and technical category (architects, engineers, accountants, and lawyers) grew 53 percent from 7,800 in 1990 to nearly 12,000 in 2006. This was substantially more than the 32 percent growth for the state's total payroll employment over the save period of time.

Alaska's oil and gas job count was the highest in the sector since 1991 when oil production was almost twice the 2006 production.¹³ From December 2005 to December 2006, oil-related jobs increased by 1,700. Oil and gas workers earn some of the highest salaries in Alaska at over \$145,000 a year; while those working for oil field service companies can make more than \$86,000 per year.¹⁴ In 2006, oil and gas jobs paid a combined total of almost \$200 million more than the previous year, accounting for more than a quarter of the overall \$700 million increase in wages paid by Alaska employers.¹⁵

Metal ore and mineral mining also contributed to the strong growth in natural resources and mining. The state's growing number of mines saw a 26 percent increase in payroll in 2006 with average annual pay for mine workers at nearly \$80,000 per year.¹⁶

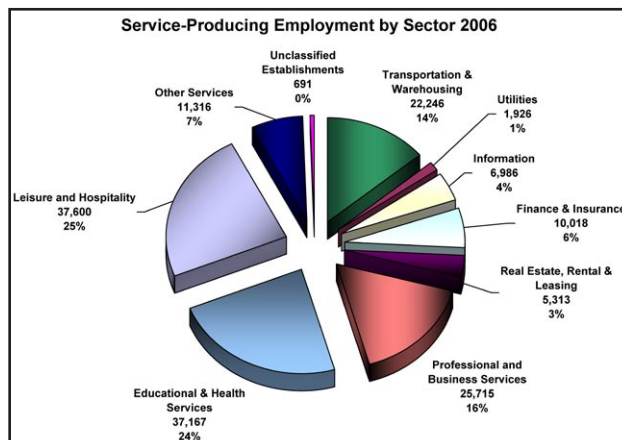
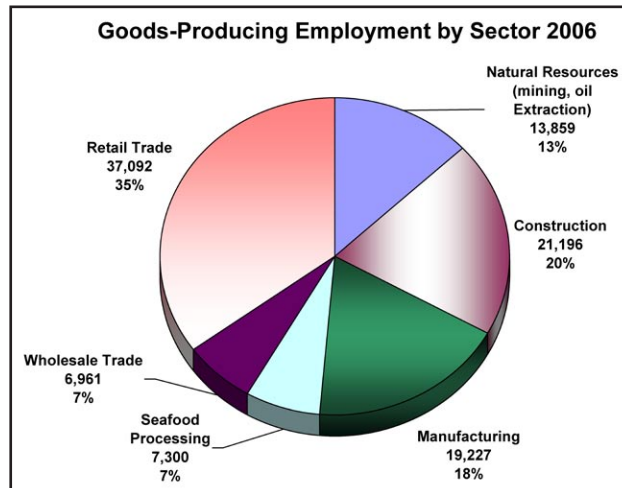


Figure 13. Services producing sector increased noticeably in the state and the nation. Source: U.S. Department of Commerce, Bureau of Economic Development

¹³ Robinson, D., *Employment Scene, Alaska Economic Trends*, February 2007, State of Alaska Department of labor and Workforce Development.

¹⁴ Robinson, D., *Payroll Numbers Show Healthy Growth, Alaska Economic Trends*, May 2007, State of Alaska Department of labor and Workforce Development.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

Since the mid-1990s, Alaska's construction industry has been expanding, but mainly in Anchorage. During this long stretch of growth, there have been several years of robust increases, a few years with small losses or no change, and others characterized by modest gains. The size of Anchorage's construction work force reached roughly 10,000 in 2006, or 3,000 more than a decade ago.¹⁷

Wholesale and retail trade accounted for 42 percent of the employment in the goods-producing sector.

Health care, Alaska's most dynamic industry, continued to grow faster than other sectors on a percentage basis while adding the most new jobs. Most of the growth occurred in the outpatient area of health care. The aging of Alaska's population should continue to push health care employment numbers upward, but at a more moderate pace.

Overall, unemployment rates in 2006 failed to reveal a clear directional trend. The preliminary numbers showed lower rates in 2006 for seven of the 12 months and equal or higher rates for the other five.

Non-farm payroll employment rose by 4,200 jobs in 2006, led by seasonal hires in construction, trade, transportation and utilities, leisure and hospitality, and government.

Alaska's seasonally adjusted unemployment rate fell two tenths of a percentage point in March 2006 to 5.9 percent, the lowest rate since September 1999. After hovering at between 6.5 percent and 7 percent throughout 2006, the unemployment rate fell every month. The causes of the year's lower unemployment rates were a modest but consistent job growth; declining in-migration to the state, and the leading edge of the baby boom generation began retiring in slightly higher numbers. Another possible factor was the activation and deployment of National Guard troops.

The Wade Hampton Census Area had the state's highest unemployment rate of 19.9 percent. The Aleutians West Census Area had the lowest at 3.2 percent. Twenty-four out of the state's 27 boroughs and census areas recorded lower rates. Only the Wrangell-Petersburg and Yukon-Koyukuk census areas had higher rates than a year earlier; the Denali Borough's 12.4 percent rate remained the same.¹⁸

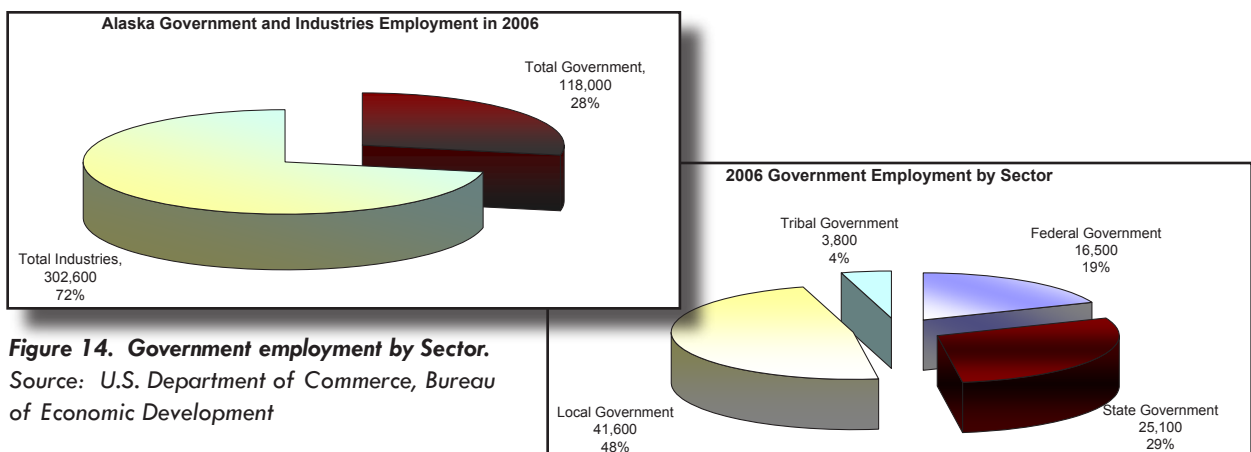


Figure 14. Government employment by Sector.
Source: U.S. Department of Commerce, Bureau of Economic Development

¹⁷ *Ibid.*

¹⁸ Unemployment rates for boroughs and census areas are not seasonally adjusted and should not be compared with the seasonally adjusted state rate.

Agriculture

Alaska's agriculture industry experienced a small but significant loss of income between 2004 and 2005, mainly in the two reported animal sectors, Milk (loss of \$252,000) and all Other Livestock¹⁹ (loss of \$634,000). These two sectors are responsible for most value added components of Alaska's agriculture, yet they are continuing to lose income and value in the state. Feed Grain, showed a \$258,000 increase, and Hay, a \$170,000 gain. Maintaining these increases in the future will depend on having a healthy animal industry, which is showing a decline.

Prices received by Alaska livestock producers have been generally higher than elsewhere, but not to the degree as other commodities. This is due to the need for in-state processing which tempers the ability of farmers to set prices. Livestock production is falling since livestock producers 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. Feed prices from Outside have risen due to market demand by the ethanol industry. This may raise feed costs for Alaska livestock producers, but Alaska feed growers may not benefit from higher prices, due to the insularity of the Alaska market. The general price increases in commodity markets will not affect Alaska commodity producers.

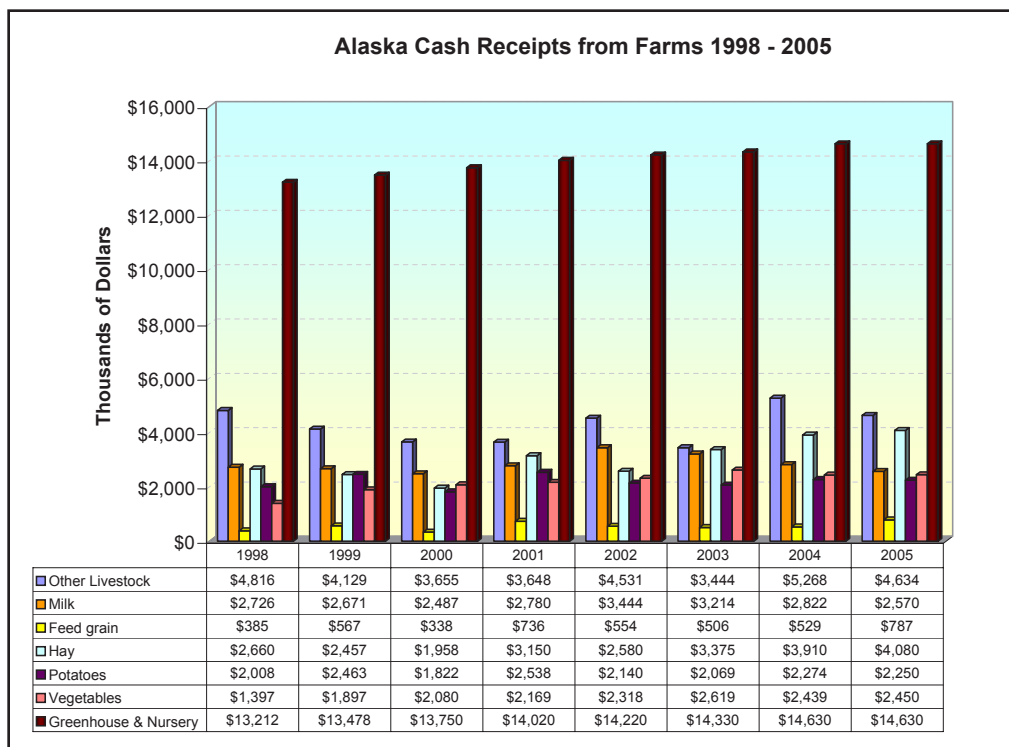


Figure 15. Commodities harvested in Alaska during the past seven years. Source: USDA National Agricultural Statistics Service, and Alaska Department of Natural Resources, Division of Agriculture

¹⁹ Other livestock consists of animals sold for meat.

Cash receipts, payments to farmers for their goods from farm marketing (excluding aquaculture), have ranged between \$26,469,000 in 2000 to \$32,312,000 in 2004, dropping to \$31,926,000 in 2005.²⁰ The highest commodity cash receipts were Greenhouse and Nursery crops (\$14,630,000), followed by Other Livestock at \$4,634,000 which included the liquidation of at least one major dairy herd in addition to other livestock liquidations which have affected the size of this sector on an unsustainable basis. In third place was Hay, which continues its increase in cash receipts, concurrent with its importance to the pet food industry (horses). This increase in receipts was mainly due to increased price, not quantity. Of particular notice is the decline in milk production, due to herd liquidations attributable to costs exceeding revenue in production units.

Direct marketing remains the largest profitable outlet for Alaska farmers, including farmers markets, and direct sales of commodities to other end users, like hay to horse owners, or barley to milk producers. Reliance on this marketing technique limits production and economies of scale for most enterprises. Existing infrastructure including grain elevators, milk processors, and slaughterhouses are underutilized due to this disorganization in the marketing system. Nearly all problems in Alaska agriculture can be attributed to an undeveloped marketing system that does not interact with wholesale markets in Alaska or commodity markets elsewhere. Attention to this system by federal and state agencies will provide the biggest effect for Alaska agriculture producers.

The Chena Hot Springs (CHS) Resort, in Fox, Alaska, has been using geothermal heat to produce vegetables (lettuce, tomatoes, green beans) by generating electricity, light, and heat for the greenhouse. In 2005, CHS provided fresh produce throughout the winter for a community of 65 workers, and 200 guests. While the economic feasibility of this enterprise has not been evaluated, technology transfers of this type of project may be able to satisfy the local needs of remote communities. Waste byproducts or natural resources like geothermal (waste), heat, or sewage sludge could be used at no cost to substitute for expensive crop inputs, or to provide other advantages for producing agricultural goods. Depending on the ability of these technologies to operate profitably, this may provide a major opportunity to expand the agricultural industry in Alaska.

Additional interest has been shown in growing canola for biodiesel. Depending on national initiatives and Alaska's ability to make use of these incentive programs, biofuels may provide opportunity for Alaska's entry into this field. Research into health and nutraceuticals may yield niche markets for some Alaska grown crops like berries.

Challenges Facing the Agricultural Industry

- Alaska's agricultural industry dependence on direct marketing has resulted in its current disconnect from market realities in commodity markets including grain, milk, meat, and some vegetable crops. The industry's further development, and even survival, will depend on the State of Alaska working with the U.S. Department of Agriculture (USDA) to encourage agriculture towards a commodity based market linked to outside markets, as well as Alaska supply and demand. The goal of fiscal stability for the entire agriculture industry should be foremost in policy formation.

²⁰ Alaska Agricultural Statistics 2006.

Oil and Gas

In August of 2006, the price of a barrel of oil rose to a high of \$75, and Alaska North Slope production averaged 845,000 barrels per day (bpd), an 8.5 percent decline over the 1988 production levels of two million bpd. The average oil prices can be attributed to shortages in oilfield equipment, construction materials and trained workforce; increased refinery costs; continued political instability in several major oil-producing regions; an upsurge in economic growth among major energy consuming nations; and market perception of petroleum resource scarcity. The decline in production was a combination of diminishing deposits and untimely closing of the Trans Alaska Pipeline for necessary repairs.

The changing domestic energy market led to a trend in new legislation seeking greater alternative energy usage; fuels aimed at reducing the cost of energy to the consumer and helping to control air pollution and greenhouse gases. The projection is for increased consumption of biofuels, coal-to-liquid, as well as transportation technologies innovation such as hybrid and diesel vehicles, and the growing use of nuclear power.²¹

World oil supplies continue to come into production such as the Azerbaijan and Kazakhstan pipeline connecting the Caspian and Mediterranean seas bringing over 1 million bpd of oil to market. Brazil continues its pioneering off-shore work in deepwater drilling maintaining steady oil outputs, and Canada's oil sands resources are becoming economical to produce, and are capable of supplying nearly 4 million bpd of oil by 2030.

World oil demand is expected to climb from 85 million bpd in 2006 to 117 million in 2030, with OPEC supplying 40 percent (48 million bpd) by 2030 compared with the 34 million supplied in 2005. The United States and China are projected to account for over half the growth in world oil consumption in 2007.

In 2006, the State of Alaska received \$4.4 billion from oil taxes, increasing the State's treasury from \$8.9 billion to \$10.5 billion.²² The large portion of this \$4.4 billion made up the 88 percent of the State's unrestricted revenue²³ for budget planning purposes. Approximately 10 percent of the \$4.4 billion went to the State's restricted revenue.²⁴

Oil analysts²⁵ project that oil production will decrease another 12 percent, to 740,000 bpd in FY 2007, with a production decline forecasted to average 1.2 percent annually from FY 2005 – 2016. Alaska is a mature oil state, has an aging infrastructure that requires downtime to repair, and there are delays in heavy oil and satellite field project development. Some of this decline will be offset by new oil development underway, such as several new offshore and satellite fields along with available reserves in the National Petroleum Reserve Area (NPRA) that are expected to come online during the next several years, and which will conservatively supply an additional 34,000 bpd in 2007 and 340,000 bpd in 2014.



²¹ U.S. Department of Energy, Energy Information Administration.

²² State of Alaska Department of Revenue, Treasury.

²³ Unrestricted revenue is general-purpose revenue used for budget planning purposes and is not restricted by the constitution, state or federal law, trust or debt restrictions, or customary practice.

²⁴ Restricted revenue is restricted by the constitution, state or federal laws, trust or debt restrictions, and customary practice.

²⁵ State of Alaska Department of Revenue Oil and Gas Division.

Petroleum Profits Tax (PPT)

Recently Alaska passed state legislation that changes the way it taxes its oil and gas production. The Petroleum Profits Tax (PPT) replaces the Economic Limit Factor (ELF) production tax system in place since the 1970s. Under ELF, oil production was taxed on its value at the point of production after being adjusted by the property's economic limit factor, a tax specific to a given property.

The new PPT is a tax on the profits of oil and gas produced; and, like ELF, it starts with the value at the point of production but differs by taking into account the costs a company incurs to produce the oil or gas. The following formula describes the new tax:

$$\text{PPT Liability} = [(\text{Value} - \text{Costs}) \times \text{Tax Rate}] - \text{Credits}$$

$$\text{Value} = \text{Volume of Oil and Gas Produced} \times \text{Wellhead Value}$$

$$\text{Costs} = \text{Operating Expenditures} + \text{Capital Expenses}$$

$$\text{Tax Rate} = 22.5\% + 0.25\% \text{ for every } 1\% \text{ per barrel that this "net income" exceeds } \$40$$

$$\text{Credits} = (20\% \times \text{Capital Expenditures}) = (20\% \times \text{Eligible Transition Expenditures}) + \text{Base Allowance}^*$$

* An excellent discussion on the PPT is found at: http://www.tax.state.ak.us/sourcesbook/2006/Fall2006/F06RSB_2.ESum.pdf.

20

These changes in the oil and gas taxing structure are expected to result in increased revenues for the State any time that Alaska North Slope prices are above \$25 per barrel. Under current production and cost estimates, analysts believe that at an average price of \$60 a barrel, the PPT could generate over \$2 billion in tax revenues compared to \$1 billion from ELF. The following Department of Revenue chart compares estimated cumulative production tax scenarios under the ELF and new PPT, 2008 – 2012. State Revenue analysts believe the PPT will ultimately generate higher tax revenues than the ELF at prices in the \$25 - \$35 per barrel ranges. Perhaps almost as important as the revised tax structure is the intent of the new legislation to encourage exploration and early development of new discoveries.

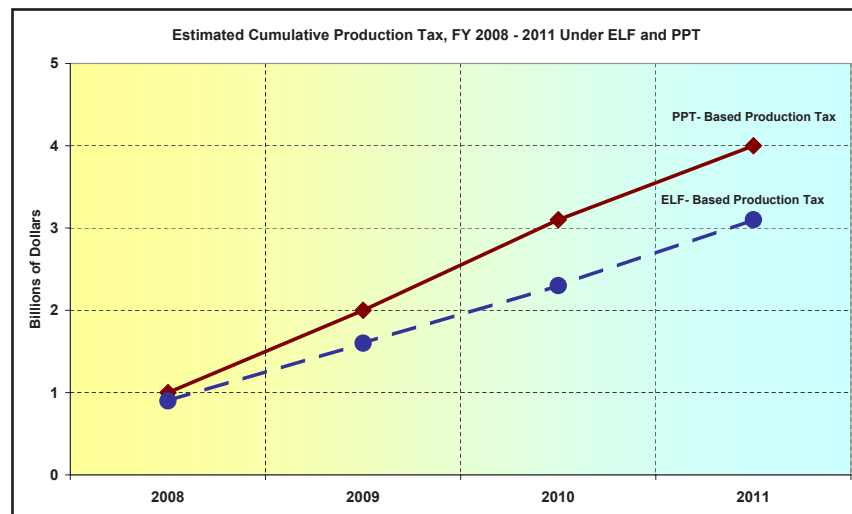


Figure 16. Comparison between ELF and PPT tax scenarios. Source: Alaska Department of Revenue, Fall 2006 Revenue Sources Book

Natural Gas

Natural gas prices are currently in the \$6 range per total cubic feet (ptcf), less than half of the 2005 price peak of \$15 but still three times more than natural gas earned five years ago. The 10-year projection foresees U.S. demand for natural gas to reach or exceed 85 billion cubic feet per day (bcfd) with total U.S. production at 60 bcfd; a supply gap of 25 billion cubic feet of gas per day.²⁶ Alaska is working on a contract to build a pipeline to transport this resource to market.

There is growing consensus among energy experts that world energy markets will depend less on oil and increasingly more on natural gas to meet their future energy demands. This is especially true

New Oil as a Percentage of Total Oil (Millions of barrels a day)			
Fiscal Year	Total New Oil	ANS Total	Percentage New Oil
2007	0.034	0.74	4.60%
2008	0.106	0.872	13.60%
2009	0.153	0.779	19.70%
2010	0.201	0.779	25.90%
2011	0.248	0.782	31.70%
2012	0.337	0.831	40.50%
2013	0.336	0.795	42.20%
2014	0.340	0.772	44.10%
2015	0.329	0.737	44.60%
2016	0.309	0.696	44.40%
2017	0.361	0.73	49.50%

Figure 17. Oil as a percentage of new oil. Source: Worldwide Look at Reserves and Production, Oil and Gas

Unrestricted and Restricted Revenue by Major Source FY 2006 and Forecasted FY 2007-2008 (Millions of Dollars)				
	FY 2005	FY 2006	FY 2007	FY 2008
UNRESTRICTED*				
Oil Revenue	\$2,849.6	\$3,526.9	\$3,008.4	\$3,357.2
Non-Oil Revenue	\$314.5	\$389.9	\$368.9	\$453.2
Investment Earnings	\$24.7	\$52.8	\$59.5	\$100.7
Subtotal	\$3,188.8	\$3,969.6	\$3,436.8	\$3,911.1
RESTRICTED				
Oil Revenue	\$545.5	\$623.5	\$551.1	\$475.4
Non-Oil Revenue	\$514.7	\$528.4	\$468.8	\$619.1
Investment Earnings	\$2,773.6	\$2,383.2	\$2,563.7	\$2,902.5
Federal Revenue	\$1,924.9	\$2,764.9	\$3,061.0	\$3,048.5
Subtotal	\$5,758.7	\$6,300.0	\$6,644.6	\$7,045.5
GRAND TOTAL	\$8,947.5	\$10,269.6	\$10,081.4	\$10,956.6
* Total unrestricted revenue reported from Alaska State Accounting System (AKSAS) with adjustments for certain municipal sharing of statewide taxes and additional spending restrictions.				

Figure 18. Sources of oil revenues in Alaska. Source: Alaska Department of Revenue, Tax Division

among emerging economies where demand for natural gas is growing more than twice as fast as in mature economies. Energy analysts expect these emerging economies in Asia, South America and Africa to account for nearly 75 percent of total world natural gas consumption over the next 30 years.²⁷

Arctic National Wildlife Refuge (ANWR)

Oil and natural gas development in the Arctic National Wildlife Refuge (ANWR) remained closed in 2006. While this significantly impacted potential State oil revenues, it did not have the same effect on potential natural gas development. The National Petroleum Reserve – Alaska (NPRA) was leased and explored for

²⁶ Exxon interview in CCNMoney.com, August 28, 2006.

²⁷ EIA International Energy Outlook 2006, p.38.

oil and gas reserves where geologists expected gas resources to be six time larger than those found in the coastal plain of ANWR.

Other Energy Prospects in 2006

During 2006, the State continued oil and gas development through leasing, exploration licenses and incentive programs to locally operating producers. As the year began, 27 exploratory wells had been drilled in federal waters of the Beaufort Sea with four discoveries. Despite the general decline in oil production from Alaska's two largest North Slope fields, Prudhoe and Kuparuk, efforts now underway between the State and oil companies continued to bring into production smaller satellite fields. State of Alaska Department of Revenue analysts project the rate of production for Prudhoe Bay and adjacent fields to hold at 900,000 bpd over the next five years.

The Five Year Outer Continental Shelf Oil (OCS) and Gas Leasing program is guiding domestic energy leases on the OCS from 2007 – 2012. The program schedules eight sales in Alaska: two in the Beaufort Sea; three in the Chukchi Sea; up to two in Cook Inlet; and one in the North Aleutian Basin – in an area of about 5.6 million acres that was previously offered during Lease Sale 92 in 1985. There are currently no existing leases in the North Aleutian Basin. These areas would be subject to environmental reviews, including public comment, and extensive consultation with state and local governments and tribal organizations before any lease sale proceeds.

Development of the West Sak heavy-oil field continued in 2006. ConocoPhillips's exploration and production efforts were primarily directed towards the Alpine satellites and West Sak heavy-oil field while continuing development within the Prudhoe Bay and Kuparuk fields. This project utilizes advanced drilling technology to develop 10,000 reservoir acres from a single drill site.

Challenges Facing the Oil & Gas Industry in Alaska

- State efforts to ensure the continuation of oil exploration will hinge on access to existing pipelines and facilities by new explorers. If satellite field oil and gas production is to grow then the way to help accomplish this is with facility and service agreements in place. A study commissioned several years ago by the State of Alaska Department of Revenue, Division of Oil and Gas examines the challenges associated with developing facility sharing agreements especially among the major North Slope operators: ConocoPhillips, BP Exploration Alaska, and ExxonMobil.²⁸ The study finds most North Slope facilities have reached capacity for handling additional oil, gas or water. Presently, Kuparuk River, Prudhoe Bay, Lisburne, and Endicott are the only production facilities with existing facility sharing and services agreements addressing satellite production.
- Oil companies face issues ranging from finding skilled labor to replace the coming wave of oil retirees among industry's most skilled workers, to successfully operating in the world's harshest environment.
- Oil companies still consider tax stability and permit streamlining as key challenges affecting corporate decisions to prospect for, develop and market energy resources found in Alaska. The effects of the new Petroleum Profits Tax on these decisions are still unknown.

²⁸ Facility Sharing Study 2004 at: www.dog.dnr.state.ak.us/oil/products/publications/otherreport/nsfacility/share.htm.

Mining

The Alaska mining industry experienced a record year in 2006 grossing \$3.5 billion, nearly double 2005 earnings of \$1.8 billion, and positioning the industry for continued growth in 2007.

The value of Alaska's mineral industries averaged around one billion dollars from 1996 – 2003. In 2004, the value jumped one half billion dollars; climbed to \$1.8 billion in 2005; and nearly doubled in value in 2006 to \$3.5 billion.

In 2006, Alaska's minerals production value totaled \$2.8 billion, exploration totaled \$177 million, and development expenditures were \$487 million.²⁹ The construction at the Pogo mine was completed for the year, at a cost of \$347 million. Construction on the Kensington mine which began in mid-2005, continued throughout 2006. Construction started at Rock Creek near Nome, and Nixon Fork near McGrath.

Alaska's largest producing mines include the Red Dog lead and zinc mine near Kotzebue; the Fort Knox gold mine near Fairbanks; the Usibelli coal mine near Healy; and the Greens Creek gold, silver, lead and zinc mine near Juneau. In 2006 the Pogo mine became one of these large mines produced over 100,000 ounces in gold. Collectively, these mines provided 2,900 direct jobs and a payroll of \$194 million. An additional 5,000 jobs in support services equaled a total payroll of \$280 million.³⁰

Alaska's zinc ore concentrates grossed \$2 billion or 71 percent of the total metals value. Gold was at \$317 million; silver at \$189 million; lead at \$184 million; rock sand and gravel at \$2.7 million; and coal and peat at \$2 million.

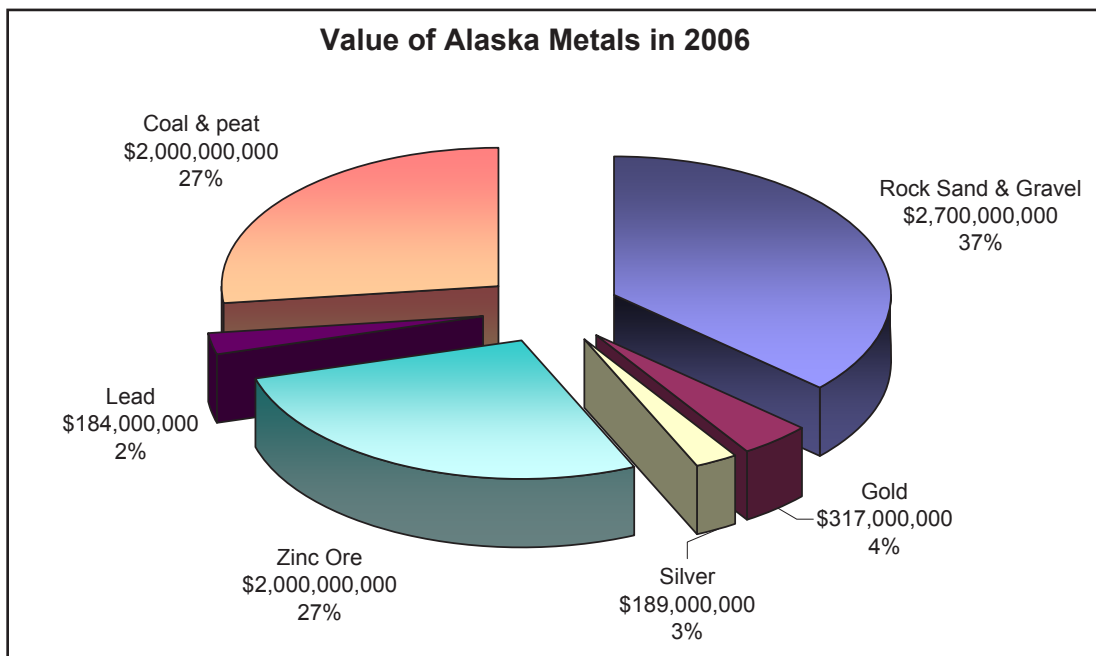


Figure 19. Percent value of total metals value in 2006. Source: Alaska's mineral industry reports published annually by DGGGS and OED

²⁹ The total value of mining includes the value of production and expenditures for exploration and development.

³⁰ The Economic Impact of Alaska's Mining Industry, McDowell Group, March 2006.

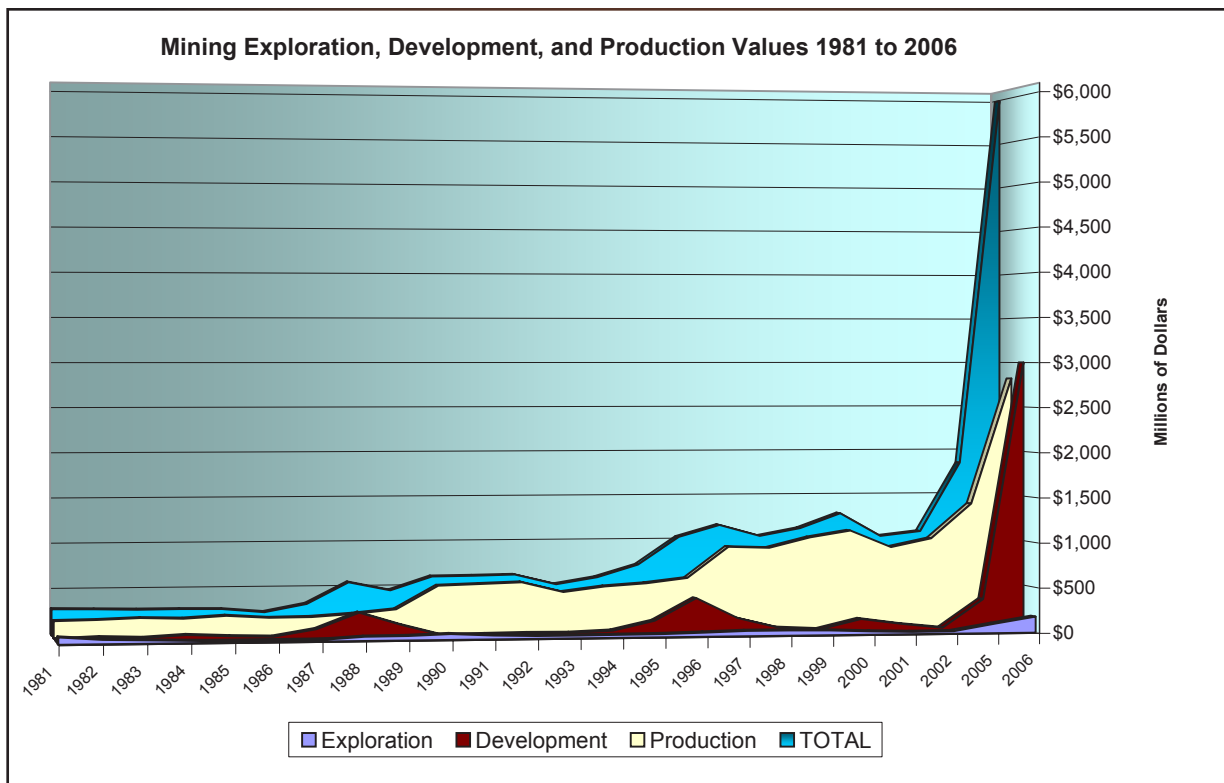


Figure 20. Total value of mining has grown during the last few years. Source: Alaska's mineral industry reports published annually by DGGs and OED

Large mineral projects under development include the Kensington gold project near Juneau, the Nixon Fork near McGrath, Rock Creek near Nome, and Chuitna Coal west of Anchorage.

Twenty-eight percent or 104 million acres of Alaska's 365 million acres of state-owned land, is open to mining.³¹ The 13 Alaska Native regional corporations own an additional 44 million acres, and some of them actively market resource development on their lands. The corporations have partnered with international investor to develop the North Slope oil fields and the Red Dog mine, and more recently with mining companies to explore the Alaska's southwest region. Presently, over 33 million ounces of gold have been identified in the Donlin Creek project, making it the second largest gold project in North America. The largest gold mine prospect on the continent is the Pebble Copper-Gold project with an estimated 81.1 million ounces of gold, 66.7 billion pounds of copper, and 4.1 billion pounds of molybdenum.

³¹ These 104 million acres represent area larger than the entire state of California.

Challenges Facing the Mining Industry

- A shortage of experienced mining professional and worker-level manpower;
- litigation intended to impede, delay and/or stop mineral project development in the state;
- manpower shortages in the Mining Section of the Division of Mining Land and Water;
- extending the definition of wetlands to apply to the vast areas of lands managed by the Corps of Engineers;
- insufficient state infrastructure to support mineral development projects; and
- insufficient funding to support the geophysical and geological mapping effort of the state lands.

1981 - 2006 Alaska Mine Development Project Milestones (Millions of Dollars)				
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	\$103.9	\$347.9	\$1,401.6	\$1,853.4
2006	\$177.0	\$488.6	\$2,818.4	\$3,484.0
TOTAL	\$1,211.9	\$2,999.6	\$18,143.8	\$22,354.5

Figure 21. Exploration, development, and production values to 2006. Source: Alaska's mineral industry reports published annually by DGGs and OED

Alaska Mining Development in 2006

PROJECT	STATUS
POGO	Teck-Cominco and Sumitomo continued construction and commissioned the project. The mine did not achieve full production during the year due to milling constraints. It is expected to achieve full production during 2007.
KENSINGTON	In December of 2004, The U.S. Forest Service issued the Final Supplemental EIS (FSEIS) and Record of Decision (ROD). In June 2005, the Company received the Environmental Protection Agency's (EPA) National Pollutant Discharge Elimination System (NPDES) Permit and the Army Corps of Engineers 404 Wetlands Permit. The decision to permit was appealed by SEACC and they prevailed in the 9 th Circuit in March 2007. This has created a dilemma for Coeur, who has not announced intentions. Currently, projected capital cost is \$190 million with a projected cash operating cost of \$250 per ounce.
ROCK CREEK/ BIG HURRAH	NovaGold's Rock Creek and Big Hurrah projects construction permits were received in 2006. Construction was started upon receipt of permits with completion in August 2006. Production will be approximately 100,000 ounces per year from Rock Creek and Big Hurrah ores. Capital costs are projected at over \$60 million and cash operating costs at \$250 per ounce of gold. The mill will be constructed at Rock Creek and ores from Big Hurrah hauled to that site for co-mingling with the Rock Creek materials.
NIXON FORK	Mystery Creek's (St Andrew Goldfields) Nixon Fork project located near McGrath continued advanced exploration, permitting and construction. Production is expected in early 2007. Total resources are 161,700 ounces of gold contained in 267,200 tons of material.
DONLIN CREEK	Placer Dome (30%) and partner NovaGold Resources (70%) continued project exploration and evaluation during the year. Current resources for this project are 33.7 million ounces contained in 487 million tons. Baseline monitoring, data collection for infrastructure design, metallurgical testing and feasibility studies are in progress.
CHUITNA COAL	PacRim Coal announced plans to develop its extensive coal resources located along the north side of Cook Inlet. Baseline environmental monitoring, engineering and permitting are in progress to produce between 3 million and 12 million tons of coal per year by 2009.
PEBBLE COPPER-GOLD	This world class copper-gold-molybdenum deposit located north of Lake Iliamna is owned by Northern Dynasty. A deep higher grade extension to the deposit has been discovered and is still being expanded by drilling. Current resource estimates for both the west and east ore bodies is 66.7 billion lbs of copper, 81.1 million oz of gold, 4.1 billion lbs of molybdenum contained in 8.3 B tons of material.

Seafood

The Alaska seafood industry experienced another strong year in 2006. Extending a trend begun four years ago, total earnings and employment are some of the highest in recent years, and seafood exports worth two billion dollars, account for half of Alaska's total export value. The four billion pounds of seafood harvested in 2006 worth \$1.4 billion to commercial fishermen is slightly better than 2005's harvest value of \$1.3 billion and the highest value received since 1999.

Approximately 20 percent of 2006 total seafood earnings in Alaska are attributable to salmon harvests. Despite healthy, sustainable populations, salmon harvest values were down slightly in 2006 compared with the previous year. The 2006 harvest value was \$308 million compared to \$334 in 2005, but still well above values earned from 2001 – 2004.

The \$50 million Salmon Revitalization Strategy providing financial aid for commercial fishermen, struggling fishing communities, and matching economic development grants to seafood business concluded in 2006. Intended to improve both the value and competitiveness of Alaska's seafood industry particularly the salmon industry, the program helped Alaska's harvesters and seafood processors to develop new markets for Alaska seafood, and strengthened or helped to expand existing seafood operations around the state.

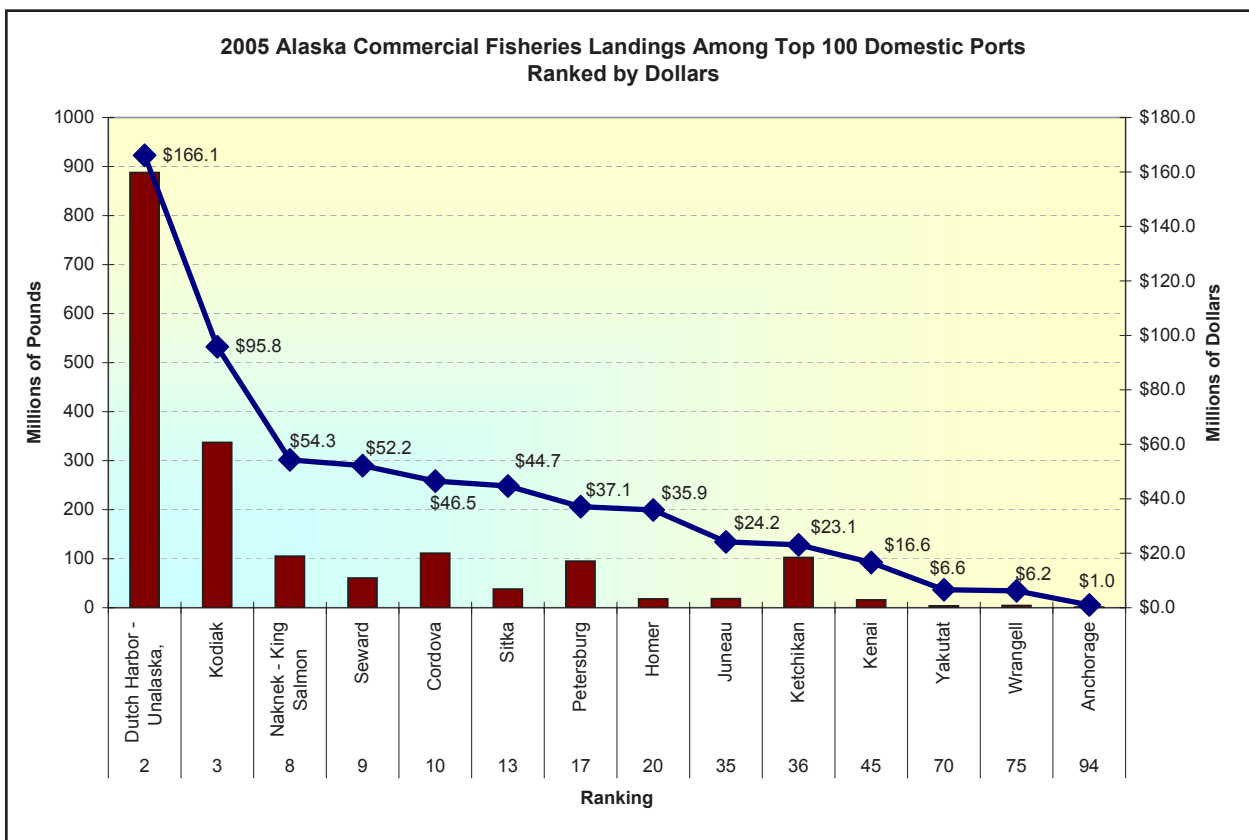


Figure 22. Alaska's commercial fishing ports' landings rank among the nation's top 100 ports. Source: NOAA National Marine Fisheries Services

In 2006, Alaska had two of the country's five top fishing ports ranked by total harvest value. Dutch Harbor ranked second in the nation (after New Bedford, Massachusetts) with harvest value of \$166 million; Kodiak moved up from fourth to third place with nearly \$96 million in seafood; and the Port of Anchorage improved its ranking from 97 to 94 in 2005 by nearly doubling the value of seafood landed.³²

Worth two billion dollars, Alaska's seafood export value was essentially unchanged over last year while accounting for slightly more than half of Alaska's total export value.³³

The 2006 value³⁴ of salmon, halibut, herring, shellfish, and groundfish totaled \$1.4 billion, the second highest value paid in ten years.³⁵ Approximately 55 percent of this value accrued in the groundfish³⁶ fishery. The state manages groundfish harvests inside the three-mile limit in close coordination with federal managers to insure the health of these high value migratory stocks. This management relationship extends to local communities, the Alaska Board of Fisheries, and the seafood industry. The abundant pollock and cod stocks in the Exclusive Economic Zone (EEZ) located outside Alaska's three-mile jurisdictional limits are managed by the National Oceanic and Atmospheric Administration (NOAA) and account for approximately 42 percent of groundfish harvest value. The annual first wholesale value to the groundfish industry averages approximately \$3.2 billion with a third of this value coming from harvests occurring in the EEZ.³⁷

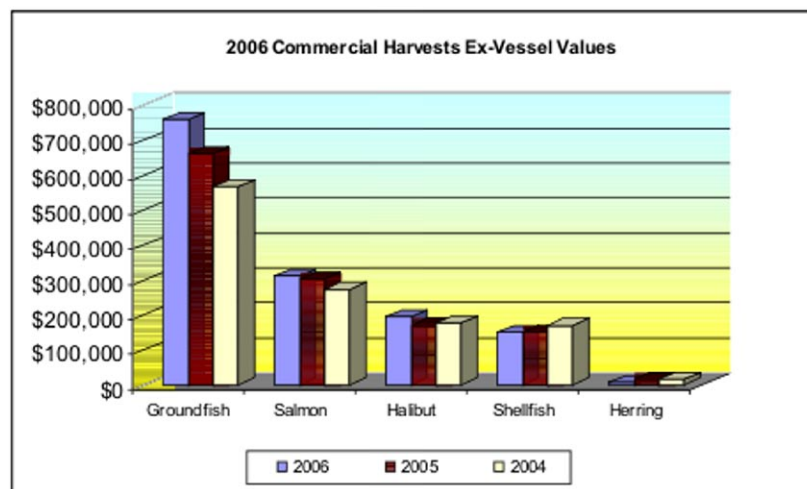


Figure 23. In 2006 the commercial harvests ex-vessel values increased for groundfish, salmon, and halibut, and diminished for shellfish and herring. Source: Alaska Department of Fish and Game, 2007 overview, preliminary figures for 2006

³² To avoid disclosure of private enterprise certain leading ports have not been included by NMFS to preserve confidentiality.

³³ Alaska World Trade Center, Annual Export Alaska Event <http://www.wtcak.org/>.

³⁴ This refers to the dollar value to commercial fishermen.

³⁵ Alaska Department of Labor & Workforce Development.

³⁶ Groundfish is any marine fish except halibut, smelt, herring, and salmon.

³⁷ Alaska Department of Fish and Game, Division of Commercial Fisheries.

The 2006 commercial salmon harvest of 141 million pounds of fish with an ex-vessel value of \$308 million was down from last year's \$600 million harvest worth \$334 million, but still an improvement over 2001 - 2004.

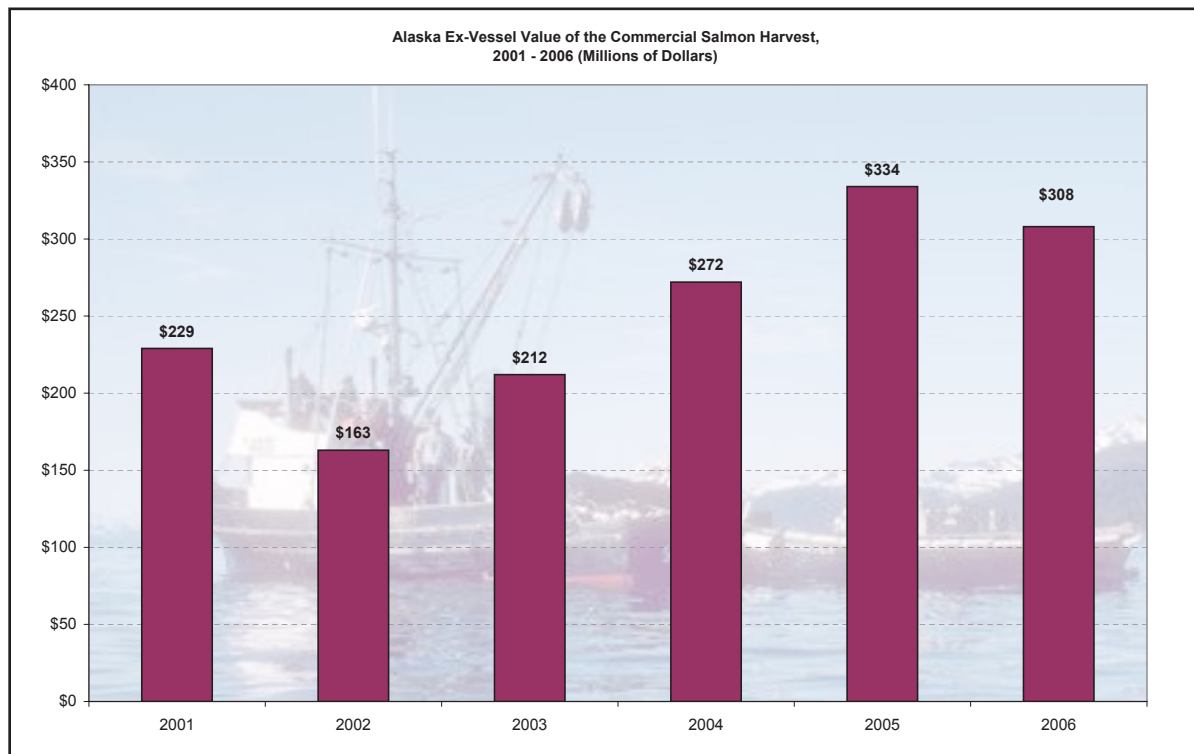


Figure 24. Annual Alaska ex-vessel value of commercial salmon. Source: State of Alaska Department of Fish and Game, special Publication No. 07-01

Several promising developments indicate that stronger ground prices for salmon will continue. During the 2006 season, chum salmon ex-vessel prices were nearly up to the recent 20-year average price of \$0.32 cents a pound compared to \$0.19 cents a pound in 2003. Chum salmon represent around 20 percent of the total salmon harvest with an ex-vessel value of \$56 million. The statewide average price for Coho salmon was approximately one dollar per pound compared with seventy-five cents in 2005, with some areas receiving as much as \$2.85 per pound for troll caught silvers.

Strong king salmon prices continue as buyers facing king salmon commercial fishing closures in West Coast markets look to Alaska to supply a growing U.S. consumer demand for the mostly troll-caught fish. Average ex-vessel prices paid for king salmon during 2006 approached \$2.89 per pound, the best price paid in 25 years, with some Southeast trollers being paid as much as \$9.20 per pound for winter kings.

Sockeye salmon continue to account for half to two-thirds of the total ex-vessel value of commercial salmon harvests in Alaska. In 2006, 70 percent of Alaska's total sockeye harvest or 40 million sockeye occurred in Bristol Bay. The statewide average price per pound was \$0.67 cents with fishermen receiving \$0.10 cents less per pound in Bristol Bay.

Pink salmon are beginning to enter into higher value markets through new product form innovations and improved marketing. A decade ago, over 80 percent of the pink harvest was processed for the canned salmon market. Today, only half the harvest is canned and the other half is frozen. The 2006 total statewide harvest of pink salmon was significantly lower than projected, at 74 million pounds of fish, compared with the 2005 harvest of 161 million. Scientists are projecting a robust 2007 pink harvest of 108 million salmon.³⁸

State Revenue Generated by Alaska's Commercial Fishing Industry (Thousands of Dollars)			
	FY 2006	FY 2005	FY 2004
Fish Processing Taxes	\$32,487	\$25,560	\$29,245
Salmon Enhancement Tax	\$4,379	\$3,811	\$3,034
Seafood Marketing Assessment	\$6,358	\$3,523	\$3,295
Salmon Marketing Tax *	\$49	\$2,455	\$1,964
Seafood Development Assessment **	\$153	\$0	\$0
Fishery Resource Landing Tax	\$10,479	\$8,645	\$6,861
Processor Corporate Tax	\$4,223	\$2,943	\$3,141
Dive Fishery Management Assessment	\$274	\$411	\$254
CFEC License Fees	\$4,952	\$3,887	\$3,602
Crewmember License Fees	\$1,876	\$1,897	\$2,038
TOTALS	\$65,229	\$53,132	\$53,434
* This is the last year for federal funding of this tax.			
** FY 2006 was the first time this tax was collected. Source: Division of Commercial Fisheries 2007 Overview Preliminary Figures			

Figure 25. Revenues generated from Alaska's commercial fishing industry from 2004 - 2006. Source: Alaska Department of Revenue, Tax Division

Herring harvests have

historically played an important role in Alaska's commercial fishing for many decades with commercial harvests occurring in Southeast, Kodiak, Bristol Bay, Kuskokwim Delta, and Norton Sound. While stocks remain stable, weakening markets especially in Japan have resulted in lower prices and declining fleet participation. By way of comparison, total herring ex-vessel harvest values in the early 1990's exceeded \$60 million. However, by 2005, total value was \$15 million representing a 74 percent drop in value. Efforts by the industry to pioneer new markets for herring products continue.

In 2006, Alaska halibut fishermen landed 52 million pounds or 98 percent of the 2006 harvest limit with an ex-vessel value worth \$194 million.³⁹ This represents a \$25 million increase in value from 2005's total value of \$169 million on 57 million pounds of halibut harvested, and a nine percent

U.S. Sablefish Exports (Millions of Dollars)			
Year	Total	Japan	Japan %
2002	\$18.0	\$16.2	90
2003	\$25.5	\$22.1	87
2004	\$31.9	\$27.5	86
2005	\$27.7	\$20.2	73

Figure 26. Percent of Alaska's sablefish exported to Japan. Source: International Trade Office, Office of the Governor

increase in value from 2004. The average 2006 dockside price paid to commercial halibut fishermen was \$3.71 per pound, up \$0.70 cents from 2005 and almost a dollar from 2004. The outlook for long-term sustainable harvests and strong consumer demand is excellent.

Alaska accounts for 67 percent of all sablefish landed in North America at top ports such as Seward, Sitka, Kodiak, and Dutch Harbor (Unalaska). Peak harvests typically occur early through late spring. The remaining

³⁸ State of Alaska Department of Fish and Game scientist Doug Eggers provides an excellent review of the 2006 Alaska salmon fisheries at: <http://www.sf.adfg.state.ak.us/FedAidpdfs/sp07-01.pdf>.

³⁹ NOAA Fisheries Restricted Access Management, 2006.

fish are landed along the West Coast and Canada. Sablefish harvested in Alaska are almost exclusively marketed to the Japanese market which especially prizes its rich oily flavor. Landings in 2006 were down four million pounds to about 32 million pounds valued at \$78 million, with an average price of \$2.45 per pound, up \$0.35 cents from 2005. While Japan continues to dominate the sablefish market that position is slipping, going from 90 percent in 2002 to 73 percent in 2005. Market analysts point to increasing demand from buyers in China and Hong Kong whose current combined share is 15 percent of the U.S. sablefish market.

According to the State of Alaska Department of Fish and Game (ADF&G), increased interest in sablefish aquaculture in Canada and the United States is raising issues—similar to those produced by salmon farming—about the potential negative impacts of sablefish farming on the health of wild stocks of sablefish, and on the market for wild sablefish.⁴⁰

Alaska shellfish comprising three major species of crab, shrimp, and miscellaneous shellfish is currently operating at close to maximum sustainable levels. In 2006, commercial shellfish harvesters caught 75 million pounds with an ex-vessel value of \$148.6 million or \$600,000 dollars more than the total harvest value in 2005.

The miscellaneous shellfish category consists of the shellfish harvest in Alaska's commercial dive fisheries, and includes such species as sea cucumbers, geoducks, hard-shell clams, and sea urchins. Major overseas markets including China, Hong Kong, and Japan especially value live product and pay top dollar for it. Greater efforts underway in the

2006 Alaska Shellfish Harvest and Ex-vessel Values (In Millions)		
	Total Pounds	ExVessel Value
King Crab	25	\$94
Tanner & Snow Crab	41.6	\$37
Dungeness Crab	4	\$5
Shrimp	1	\$4
Other Shellfish	3.4	\$9
TOTAL	75	\$149

Figure 27. Alaska shellfish includes three species of crab, shrimp, and miscellaneous fish.
Source: Alaska Department of Fish and Game, Commercial Fisheries Division

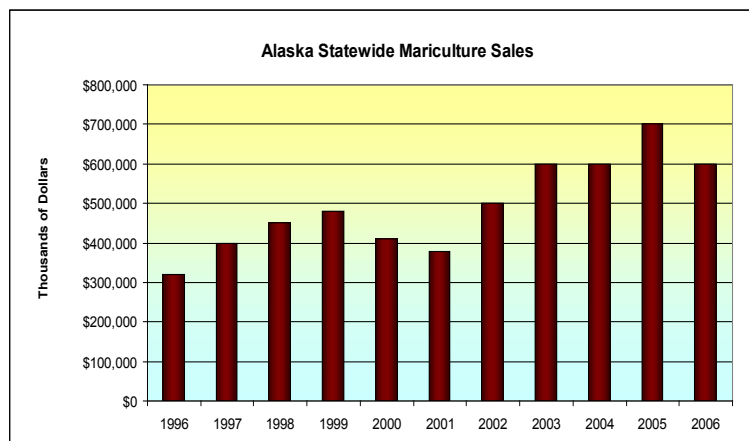


Figure 28. In 2006 Alaska mariculture sales were down slightly from 2005. Source: Alaska Department of Fish and Game, Commercial Fisheries Division

⁴⁰ Based on the publication, *Commercial Fisheries in Alaska*, Woodby et al. Alaska Department of Fish and Game, Special Publication 05-09, June 2005.

fishery to grow the live market segment, include rapid and accurate product safety testing, efficient refrigeration systems, and improved air shipping methods.

Mariculture operations in Alaska are limited to oyster, mussel, and clam production on approximately 50 permitted farms. Development of this fledgling industry continues as improved grow out methods combined with aggressive marketing increases the value of these products. In 2006, the total farm gate value of these farms was \$614,000, down slightly from 2005.⁴¹

In 2006, state commercial fishing revenues increased to \$65 million, a \$12 million gain over the previous two year's annual totals. This increase is not due to changes in the taxing structure or rates, but rather reflects the increased demand for Alaska seafood and improved prices.

Likewise, municipal special tax and revenues, and community development quota royalties paid to local communities grew eleven percent in 2006, from \$89 million in 2005 to \$99.5 million.⁴²

Challenges Facing Alaska's Seafood Industry⁴³

- The Alaska seafood industry continues to work toward final resolution of a number of serious challenges affecting its long-term health. Chief among these are competing sources of seafood, and the ability of our producers to quickly respond to customer demand through innovative strategies and products.
- In the coming years, Alaska's seafood industry will continue to face complex resource-based issues, issues concerning employment, and growing challenges for an increasing global market share of its products. Many of these concerns, described in last year's 2005 Economic Performance Report will have long term solutions.⁴⁴
- Proposed off-shore aquaculture operations being promoted by NOAA fisheries in U.S. federal waters is especially controversial among Alaska's seafood harvesters already facing stiff competition from salmon farming operations in other countries. Also, as new information on the impacts resulting to local communities from stock rationalization policies continues to be assessed, policy makers face daunting challenges as to which direction to take Alaska in the fair and equitable allocation of its precious seafood resource.

⁴¹ Farm Gate value is defined as the unprocessed value, excluding the costs of packaging or transport of the product to its first point of sale.

⁴² The Community Development Quota Program has been successfully contributing to commercial fisheries infrastructure since its inception in 1992. Over \$110 million in wages and \$500 million in revenues have been generated for over 25,000 regional residents. In addition to constructing docks, harbors, and seafood processing facilities, this money has enabled greater self-sufficiency by enabling CDQ groups to acquire equity ownership of locally available high value commercial seafood.

⁴³ For an extended list of top challenges facing the seafood industry the reader is directed to pages 55 through 58 of the 2005 *Alaska Economic Performance Report* available at: http://www.commerce.state.ak.us/dca/pub/AEPR_Web_2005.pdf.

⁴⁴ *Alaska Economic Performance Report 2005*, pages 55 – 58. http://www.commerce.state.ak.us/dca/pub/AEPR_Web_2005.pdf.

Subsistence

State and Federal law define subsistence as the “customary and traditional uses” of wild resources for food, clothing, fuel, transportation, construction, art, crafts, sharing, and customary trade. In Alaska subsistence is central to the customs and traditions, nutrition, and employment of Native Alaskan’s. In 1989 State law qualified all Alaska residents for subsistence fishing and today most rural families in Alaska depend on subsistence fishing and hunting.

Subsistence fishing is managed by the State of Alaska Department of Fish and Game, Division of Commercial Fisheries. There are seven Subsistence Resource Commissions - one for each of the seven parks or monuments within which subsistence uses are permitted by the Alaska National Interest Lands Conservation Act (ANILCA).⁴⁵ Each commission devises and recommends to the Governor and the Secretary of the Interior a program



for subsistence hunting within the park or park monument where hunting is allowed. A commission may make subsistence hunting program recommendations regarding issues as diverse as: eligibility; customary and traditional determinations; subsistence research; subsistence access; changes in subsistence taking regulations regarding seasons, bag limits, and methods and means; and impacts to subsistence caused by development projects.

An estimated 5,621 Alaskans subsistence fished for halibut in 2005, compared to 5,984 in 2004, and 4,942 in 2003. The estimated subsistence halibut harvest in 2005 was 55,875 fish for 1,178,222 pounds net weight. This compares to a harvest estimate of 52,412 fish for 1,193,162 pounds in 2004 and 43,926 halibut and 1,041,330 pounds net weight in 2003. Of the total subsistence halibut harvest in 2005⁴⁶, 70 percent was harvested with setline gear and 30 percent with hand-operated gear. As in 2003 and 2004, the largest portion or 51 percent of the Alaska subsistence halibut harvest in 2005 occurred in Southeast Alaska and Southcentral Alaska accounted for 36 percent. Subsistence harvests represent about 1.5 percent of the total halibut removals in Alaska in 2005.⁴⁷

⁴⁵ ANILCA is often called the most significant land conservation measure in the history of the nation. The statute protected over 100 million acres of federal lands in Alaska, doubling the size of the country’s national park and refuge system and tripling the amount of land designated as wilderness. ANILCA expanded the national park system in Alaska by over 43 million acres, creating 10 new national parks and increasing the acreage of three existing units.

⁴⁶ Latest available figures are 2005.

⁴⁷ Fall, J.A., Koster, D., and Davis, B. *Subsistence Harvests of Pacific Alaska Halibut in Alaska*, Division of Subsistence, Alaska Department of Fish and Game, Juneau, Alaska. November 2006.

Tourism

Alaska visitor numbers increased gradually between 2001 and 2004, and remained constant between 2005 and 2006. The 2006 Alaska Visitor Statistics Program (AVSP) estimates that 1.63 million out-of-state visitors came to Alaska between May and September 2006. Of these, 958,900 were cruise ship passengers; 587,800 entered and exited the state by air; and 84,800 entered or exited the state by highway or ferry.

In recent years, the increase in Alaska visitor numbers has been due to increases in cruise ship visitors. But following an eight percent growth of cruise ship passengers between summer 2004 and summer 2005, growth in cruise ship passengers slowed to less than 1 percent in 2006.⁴⁸

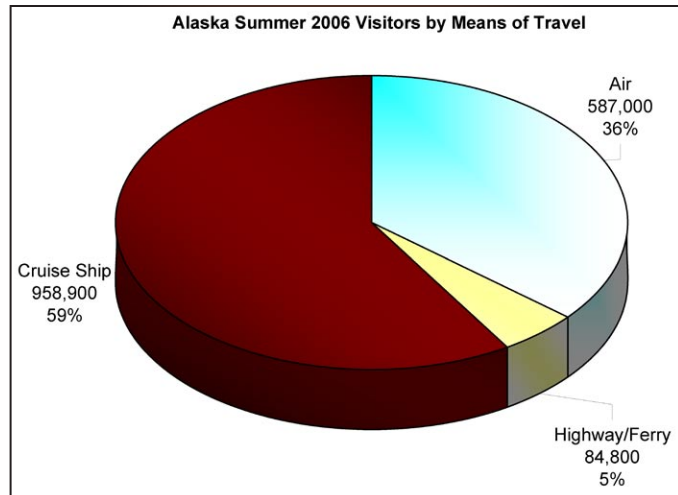


Figure 29. In the summer of 2006 Alaska had 1,631,500 visitors. Source: Based on 2006 visitor/resident ratios, AVSP V (McDowell Group, Inc.)

34

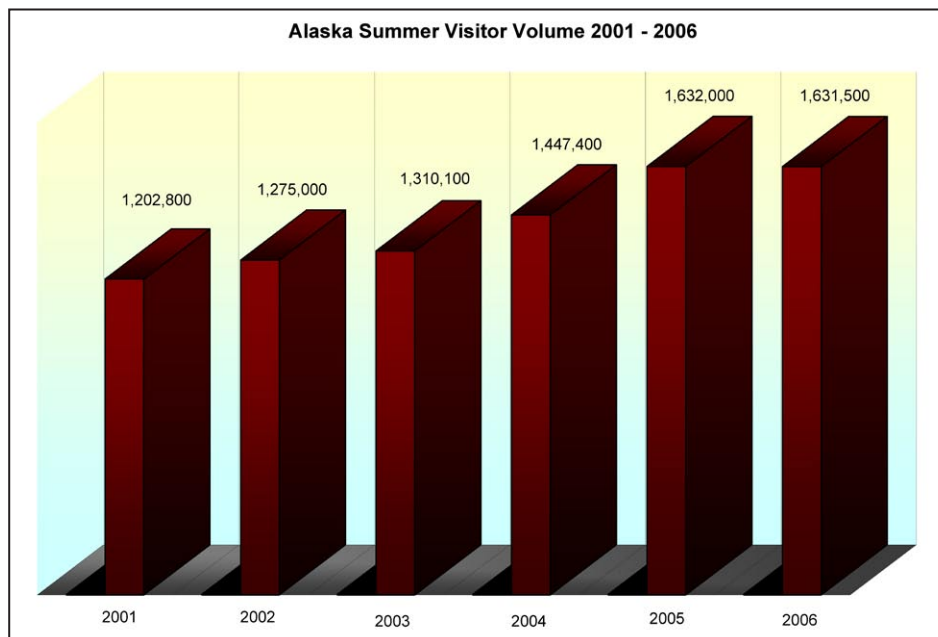


Figure 30. 2001 - 2004 Alaska visitor arrivals. Source: Northern Economics, Inc.

In 2006, 1.34 million of visitors to Alaska were visiting for vacation or pleasure; 146,000 visited friends or relatives; and 148,000 conducted business in the state.

Southeast Alaska attracted 1.2 million summer visitors; Southcentral, 907,000; and the Interior region had 534,000 (including 450,000 to Denali National Park, alone). Southwest had 54,000 and Far

⁴⁸ Cruise Line Agencies of Alaska (CLAA) is a Ketchikan-based ship to shore support business of vessel agents, and it handles all behind the scenes operations (except passengers) for cruise ships that dock in Alaska's ports. As required by the U.S. Customs and Border Patrol, CLAA keeps data on the visitor industry in the state.

North had the smallest number--49,000. One-third of Alaska visitors said they had visited Alaska previously. At least 39 percent of all visitors came from the western states; six percent from Canada; and nine percent from Europe, mainly the United Kingdom. The summer 2006 visitors to Alaska spent a total of \$1.5 billion on their Alaska trip, not including travel to and from the state. Air visitors account for \$809 million of this figure; cruise visitors for \$610 million, and highway/ferry visitors for \$111 million.

The most noticeable changes in Alaska visitors are attributable to the growing influence of the cruise industry in the overall market and the gradual decline of the highway/ferry market. The proportion of the visitor market traveling for vacation or pleasure has increased over the years, from 71 percent in 1993 to 82 percent in 2006. This may be a direct reflection of the growth in the cruise ship market.

While the average length of stay has decreased only slightly between 1993 and 2006, from 10.2 to 9.1 nights, a more significant change is detectable in terms of ranges: the proportion of visitors staying more than two weeks fell from 22 percent in 1993 to 8 percent in 2006. This reflects the declining share of the market traveling by highway or ferry, which tend to stay much longer in the state.



Challenges Facing the Tourism Industry

- The demand for Alaska cruises is down.⁴⁹ The stagnant or in some cases, declining visitor growth rate in Alaska visitors, particularly among independent travelers continues to be a concern.
- Rural Alaska communities want to develop tourism to diversify their economies and provide new business opportunities, but they lack resources and infrastructure necessary to prepare for and attract tourism development.
- Rural Alaska does not have an established reputation as a desirable destination. Its ability to attract and retain visitors will require considerable investment in marketing and promotion.
- The Western Hemisphere Travel Initiative (WHTI) that now requires travelers to have passports or government issued identification, may discourage travel. The majority of Americans are use to the ease of traveling with nothing more than a driver's license and a boarding pass. Statistics show that only 27 percent of Americans hold passports, and the average time to obtain a passport has increased from four to six weeks in 2006 to ten to twelve weeks in 2007. Whether this requirement will deter travel to Alaska, remains to be seen.

⁴⁹ Jainchill, J., Cruise analyst notes softening in Alaska, strength in Europe. Cruise Lines International Association, 2007, CLIA News Clips. A 2005 survey of travel agents, showed 38 percent of them reported a decline in bookings to Alaska.

Wood Products

The Southeast Alaska timber industry has been in a slow downward spiral for the past decade since the Alaska Pulp mill in Sitka and the Ketchikan Pulp Mill closed their doors. The forest products manufacturing sector in Southeast now consists of four medium-sized sawmills and a dozen or so micro-mills. These mills are running at less than one-shift capacity on average due to an extremely low volume of economic timber offerings from the United States Department of Agriculture (USDA) Forest Service. The State of Alaska Department of Natural Resources (DNR) Division of Forestry has maximized its offerings in the region for the past four years, but is unable to continue the pace due to lack of timber holdings.

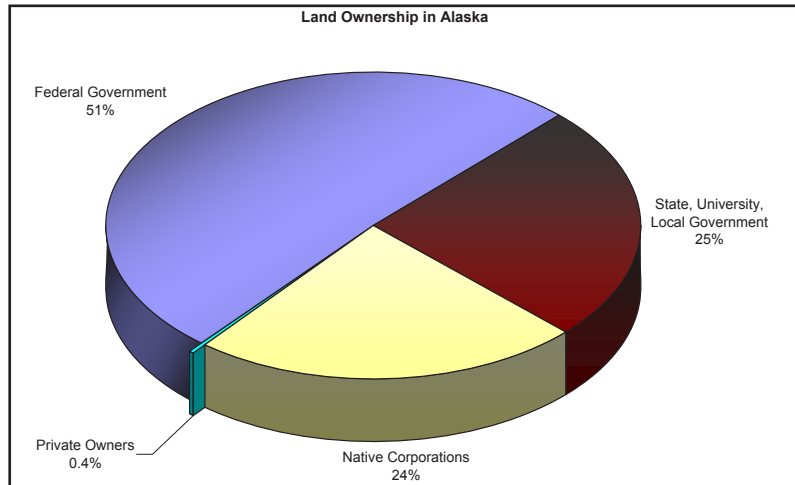


Figure 31. Alaska's lands are owned primarily by the Federal, State, and local governments, and by Native corporations. Source: Alaska Department of Natural Resources

Alaska's timber regions are managed by four landholders: 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 has historically taken place in the coastal zone, primarily on Federal and Native Corporation lands. There is, however, new interest in the resources of Alaska's boreal forests, which consist of white spruce, paper birch and quaking aspen.

A regional development organization in Southeast,⁵⁰ found that the closure of the 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 payroll totaling more than \$100 million per year.

From 1994 to 1999, the average statewide total timber harvest on Federal lands was 167 metric million board feet, (Scribner scale, mmbf).⁵¹ From 2000 to 2005, the average dropped to 63 mmbf. During this period, the region's four sawmills remained operational because of the timber sales approved by the State of Alaska.

Opportunities for revitalizing the timber industry are emerging outside the coastal Sitka spruce-hemlock forests of Southeast, Prince William Sound, and Afognak Island. The hardwood component of the boreal forest, primarily paper birch and aspen, represents a largely untapped economic

⁵⁰ *Timber Market Update and Analysis of Potential for an Integrated Southeast Alaska Timber Industry*, Southeast Conference, Alaska Regional Development Organization (ARDOR), 2006.

⁵¹ mmbf is a measure symbol used in U.S. forestry for one million board feet. One mmbf represents a volume of 83,333 cubic feet or 2,360 cubic meters. "BM" stands for "board measure."

resource. Over the past three to four years, interest has emerged in producing wood chips to export to Asia; wood pellets for residential and commercial heating and other alternative energy applications; dried birch cabinet stock; and dimensional lumber. As these projects mature, potential new jobs and investments in infrastructure may bring benefits to Alaska communities, particularly in Southcentral Alaska and the Tanana Valley.

In the Matanuska-Susitna Borough, one company 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, and became the port's anchor tenant. Birch chips were sold to a Korean cardboard manufacturer and spruce chips were shipped to a Japanese newsprint manufacturer. Alaska's white spruce provides a bright chip requiring very little bleaching making it environmentally desirable while meeting demanding Japanese quality standards. The majority of the timber used for these chips came from Alaska's ANCSA corporations.⁵² The State of Alaska Department of Natural Resources Division of Forestry is working with Borough officials to provide roads and bridges to open up state and Borough lands for future home sites and agricultural development. Potentially, timber from these developments will be available to the forest products market.



Another opportunity for timber-related employment is in the greater Tanana Valley. In December 2003, the State of Alaska Department of Natural Resources and the Department of Commerce, Community and Economic Development, collaborated with the Fairbanks Economic Development Corporation and ANCSA regional and village corporations in the area to produce a

37

prospectus to promote the timber resources of the region. At least two national companies engaged in discussions once they reviewed the prospectus.

The USDA Forest Service Sitka Wood Utilization Center reported an annual lumber market in Alaska of approximately 100 mmbf; a second wood product market estimated 90 million square feet of engineered wood products; and 40,000 short tons of other manufactured wood products. At the moment, Alaska imports these wood products from other markets, mainly Canada and other parts of the United States. Alaska also imports approximately 10 metric million board feet of treated wood for docks, wharfs, piling, decks, posts, lumber, and timbers, and 10 million board feet of railroad ties.

⁵² Alaska Native Claims Settlement Act of 1971 established 13 regional corporations, which are owned by shareholders in the regional in which the corporation is located. The 13th Regional Corporation is owned by Native Alaskans living outside of Alaska.

Recently the American Lumber Standards Committee granted a distinct wood grade category to the spruce wood from the Tongass National Forest in Alaska. This wood has desirable and marketable qualities including breaking and stiffness strengths.

Between FY 1998 and FY 2006 the State of Alaska Department of Natural Resources Division of Forestry offered an average of 87 sales and 47.9 mmbf per year. During this same period, Alaska processors purchased a total of 188.3 mmbf of timber directly from the state.

Challenges Facing the Timber Industry

- Increasing the amount of locally processed timber than can result in more Alaskans employed per each acre harvested. The State of Alaska has entered into a memorandum of understanding with the USDA Forest Service to work together to make more economic timber available to Alaskans from Federal lands.
- Traditionally, Japan has purchased nearly 80 percent of Alaska's total wood products exports. While Japan continues to be an important export partner, its share of total timber purchases continues to decline. As a result, exporters are developing other markets in China, Korea, and several nations in Europe.



International Trade

In 2006, Alaska established record exports of \$4 billion, a 12.6 percent increase from 2005.⁵³

Alaska ranked 40th in exports among the states, and 12th in attracting overseas investments.⁵⁴ For the first time, exports also made up 10 percent of the state's gross domestic product (GDP). Alaska continued to comprise 0.04 percent of the nation's record exports of \$1,037.3 billion in 2006.

In 2006, the value of Alaska's seafood exports topped \$2 billion for the first time, a 2.8 percent increase from the previous year. Although Alaska seafood exports to Japan declined 12.3 percent, Japan is still the state's single largest seafood market at \$725 million. Alaska seafood exports to other countries include an 8.4 percent increase to Korea to \$356 million, a 33.7 percent increase to China to \$323 million, and a 24.1 percent increase to Germany to \$202 million.⁵⁵

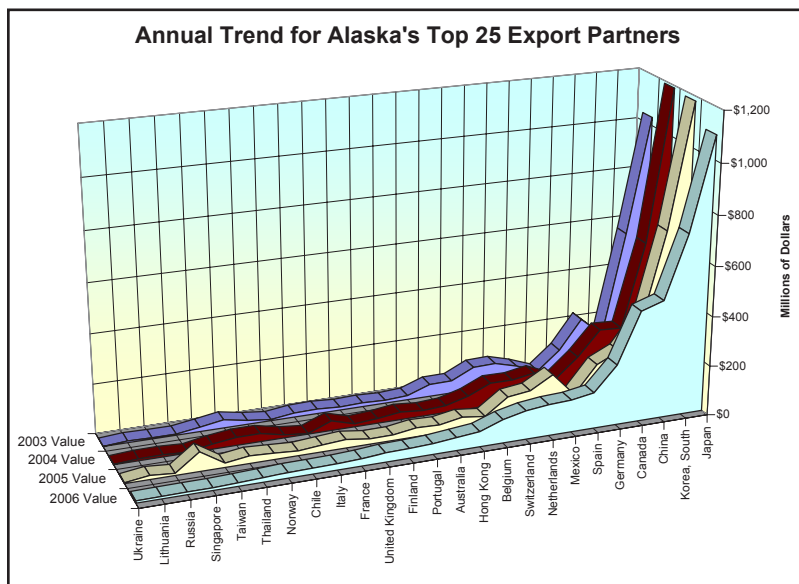


Figure 32. Since 2003 Alaska has increased exports to its partners. Source: World Trade Center of Alaska

Alaska's 10-year trend toward diversification of international seafood markets continues. In 2006, Asian markets accounted for \$1.5 billion of Alaska's seafood export value and Europe accounted for \$461 million. Ten years ago, Asia accounted for almost all of the state's seafood exports. The high increases in seafood exports to China are attributable primarily to China's reprocessing activity for re-export; Alaska seafood is also available on a retail basis in a growing number of Chinese cities. Korea plays an important role in brokering Alaska seafood to other international markets. Germany's increased use of Alaska seafood is linked to the value the market places on health, food traceability, and fisheries management.

High world market prices helped to more than double the value of Alaska's mineral ore exports to \$1.1 billion in 2006, a record high for the state. Ore exports to Alaska's top international minerals market for 2006—Canada—increased over 200 percent and accounted for \$320 million of the \$1.1 billion, followed by \$186 million in ore export to Korea, and \$151 million to Japan. Canada also continues to play a significant role in investment in Alaska mining exploration and development. The value of ore exports ranks second behind seafood in Alaska's total exports. Alaska is home to Red

⁵³ U.S. Census Bureau, 2006 Foreign Trade Statistics - <http://www.census.gov/foreign-trade/statistics/state/index.html>.

⁵⁴ Wolf, G., *The Importance of International Trade to Alaska's Economy, Alaska's Role in the Global Marketplace*, World Trade Center, 2007, Anchorage

⁵⁵ State of Alaska, Governor's Office, Office of International Trade, *Annual Export Report*

Dog, the world's largest zinc mine. Ore shipments went to Canada, Korea, Japan, Spain, Belgium, China, Australia, Finland, Germany, Italy, Mexico, and Switzerland.

Fertilizer exports are third on the list of Alaska's 2006 exports at \$163 million, down 40 percent from 2005. The decrease is linked to diminishing known reserves of Cook Inlet natural gas and increased demand in Alaska for residential and commercial use. Fertilizer is exported from Alaska to Korea, Mexico, Chile, and Columbia.

The value of Alaska's 2006 exports of precious metals, primarily gold, also increased, up 30.1 percent to \$110 million. Alaska's gold exports go mostly to Switzerland.

The value of Alaska's 2006 exports of forest products was \$111 million, down 15.8 percent. The majority of the forest products' exports are to Korea, Japan, and China.

The value of Alaska's 2006 energy exports decreased 21.4 percent to \$263 million. Alaska's liquefied natural gas exports to Japan rose in value to \$160 million; refined petroleum product exports declined to \$93 million; and coal exports declined to \$10 million.

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

China moved up to the third leading trading partner, surpassing Canada, 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.

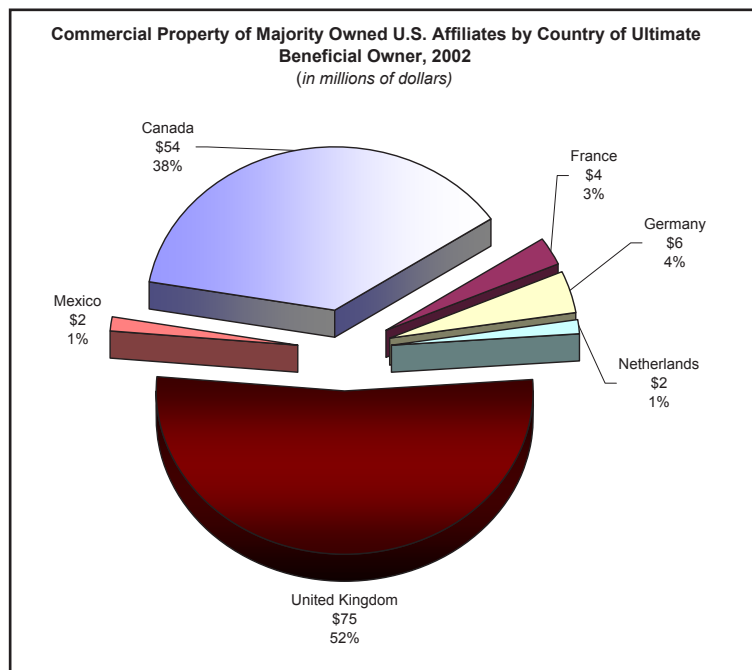
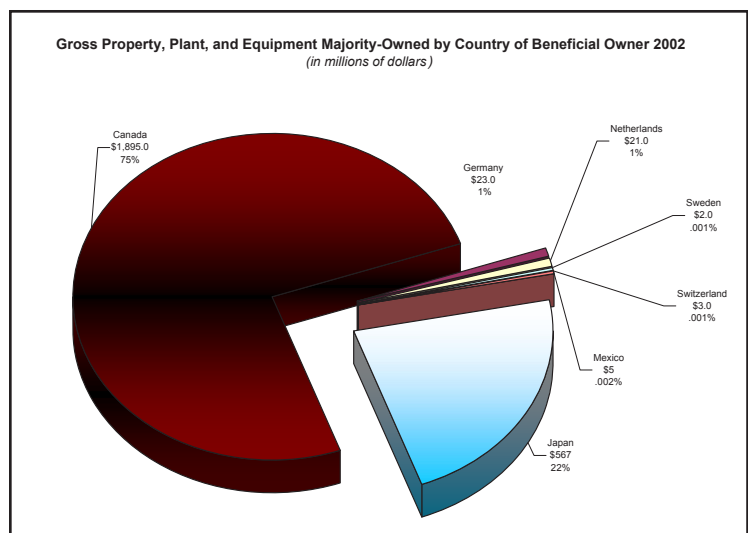


Figure 33. Foreign direct investors in Alaska own approximately \$150 million in gross property, plant, and equipment in the state. Source: U.S. Department of Commerce, Bureau of Economic Analysis

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.

From 1999 to 2004, foreign direct investors in Alaska employed 12,600 people, approximately 2,100 of these in manufacturing jobs.⁵⁶ Foreign investors also owned almost \$3 billion million in gross property, plant, and equipment⁵⁷; and \$143 million in commercial property.

The main foreign investors that are majority owners of gross property, plant, and equipment in Alaska are Canada \$1.8 billion; Japan, \$567 million; Germany, \$23 million; Netherlands, \$21 million; Mexico, \$5 million; Sweden \$2 million; and Switzerland \$2 million.⁵⁸ Majority owners of commercial property are Canada, \$54 million; France, \$4 million; Germany, \$6 million; Netherlands, \$2 million; United Kingdom, \$75 million; and Mexico, \$2 million.

The main foreign commercial property owners in Alaska in 2002, were The United Kingdom, \$75; Canada, \$54 million; Germany, \$6 million; France, \$4 million; Netherlands, \$2 million; and Mexico, \$2 million.

Nationwide in 2006, outlays by foreign direct investors to acquire or establish U.S. businesses totaled \$161.5 billion, up substantially from \$91.4 billion in 2005.⁵⁹

Challenges facing the Alaska Export Market

- Alaska's export market is subject to the performance of its internal revenue-producing industries such as oil, gas, minerals, and seafood, and it needs to maintain a healthy output of these in order to meet the increasing foreign demand. At the same time the state needs alternate exports for those finite and non-renewable resources such as oil.
- The state needs an expanded "culture of international trade" that encourages small businesses to engage in global markets that can beef up their consumer base. Many of the small manufacturers resist exporting because by definition it may require a more sophisticated business model than the one they prefer, but also because current logistics, transportation, and fees are beyond the reach of Alaska's small businesses. To address the first, would require exporting Alaskan products and services on a very limited basis. However the second issue may require a partnership of international trade organizations, or of State incentives to encourage the development of an affordable and "user-friendly" export infrastructure which small businesses can tap into.

⁵⁶ *Employment and Manufacturing Employment of Majority-Owned Nonbank U. S. Affiliates, by State, 1999 – 2004*, U.S. Department of Commerce, Bureau of Economic Analysis.

⁵⁷ *Gross Property, Plant, and Equipment of Majority-Owned Nonbank U.S. Affiliates, State by Country of Ultimate Beneficial Owner, 2002*, U.S. Department of Commerce, Bureau of Economic Analysis.

⁵⁸ *Commercial Property of Majority-Owned Nonbank U.S. Affiliates, State by Country of Ultimate Beneficial Owner, 2002*, U.S. Department of Commerce, Bureau of Economic Analysis. Note: Australia is also owner of gross property, plant, and equipment, but as of this writing, statistics were not available for this country.

⁵⁹ FTDWebMaster, Foreign Trade Division, U.S. Census Bureau, Washington, D.C.

Annual Trend for Alaska Exports by Commodities										
Values in \$millions										
Rank		2003 Value	2004 Value	2005 Value	2006 Value	2003 % Share	2004 % Share	2005 % Share	2006 % Share	% Change, 2005 - 2006
---	Total ALASKA Exports and % Share of U.S. Total	\$2,739	\$3,157	\$3,592	\$4,044	0.4	0.4	0.4	0.4	12.6
---	Total, Top 25 Commodities and % Share of State Total	\$2,391	\$2,730	\$3,235	\$3,806	87.3	86.5	90.1	94.1	17.7
1	Zinc ores and concentrates	\$329	\$384	\$428	\$898	12	12.2	11.9	22.2	110
2	Fish livers and roe, frozen	\$294	\$342	\$407	\$408	10.8	10.8	11.3	10.1	0.3
3	Fish meat nesoi, except fish steaks & fillets, frozen	\$316	\$282	\$381	\$355	11.6	8.9	10.6	8.8	-6.9
4	Fish, nesoi, with bones, frozen	\$125	\$209	\$257	\$257	4.6	6.6	7.2	6.3	-0.1
5	Fish fillets, frozen	\$134	\$206	\$180	\$242	4.9	6.5	5	6	34.9
6	Cod except fillets, livers and roes, frozen	\$107	\$158	\$184	\$204	3.9	5	5.1	5	10.7
7	Lead ores and concentrates	\$85	\$121	\$83	\$196	3.1	3.8	2.3	4.8	135.6
8	Fertilizers, exports only include other crude matls	\$199	\$231	\$275	\$163	7.3	7.3	7.7	4	-40.7
9	Natural gas, liquefied	\$148	\$139	\$137	\$161	5.4	4.4	3.8	4	17.4
10	Pacific Salmon, nesoi, except fillet, liver, roe, froz	\$49	\$74	\$119	\$139	1.8	2.3	3.3	3.4	17.1
11	Coniferous wood in the rough, not treated	\$141	\$98	\$122	\$108	5.2	3.1	3.4	2.7	-11.6
12	Gold, nonmonetary, unwrought nesoi	\$92	\$89	\$81	\$102	3.4	2.8	2.3	2.5	26.4
13	Flat fish nesoi except fillets, livers & roes, frz	\$49	\$70	\$67	\$98	1.8	2.2	1.9	2.4	45.4
14	Oil (not crude) except from petrol & bitum mineral etc.	\$55	\$35	\$41	\$91	2	1.1	1.1	2.3	120.6
15	Sockeye salmon, except fillets, livers & roes, frozen	\$83	\$118	\$160	\$86	3	3.7	4.5	2.1	-46.3
16	Crabs, including shell, frozen	\$55	\$52	\$44	\$72	2	1.6	1.2	1.8	62.8
17	Airplane & OT A/C, unladen weight >15,000 KG	\$0	\$0	\$128	\$36	0	0	3.6	0.9	-72.3
18	Halibut/Greenland turbot except fillets, liver, roe fr/ch	\$31	\$31	\$28	\$35	1.1	1	0.8	0.9	26.9
19	Flour meal & pellet of fish crustaceans etc inedible	\$37	\$31	\$33	\$35	1.3	1	0.9	0.9	5
20	Flours, meals & pellets of fish, for human consumption	\$15	\$16	\$18	\$25	0.6	0.5	0.5	0.6	43
21	Airplane & A/C unladen weight >2000, Nov 15000 KG	\$1	\$0	\$2	\$25	0	0	0.1	0.6	(Z)
22	Herrings except fillets, livers & roes, frozen	\$14	\$8	\$40	\$22	0.5	0.2	1.1	0.5	-44.5
23	Salmon, pac, atl & Danube, with bones, fr or chill	\$30	\$35	\$19	\$20	1.1	1.1	0.5	0.5	1.6
24	Generating sets, electric, nesoi	\$0	\$0	\$0	\$17	0	0	0	0.4	0
25	Refrigerator freezer and heat pump parts nesoi	\$0	\$0	\$0	\$12	0	0	0	0.3	0

Figure 34. Alaska exported over 25 different commodities in 2006. Source: U.S. Census Bureau, Economic, Foreign Trade Statistics by State - 2006

Annual Trend for Alaska's Top 25 Export Partners

(Values in \$millions)

Rank	Country	2003 Value	2004 Value	2005 Value	2006 Value	2003 % Share	2004 % Share	2005 % Share	2006 % Share	% Change 2005 - 2006
---	Total ALASKA Exports and % Share of U.S.	\$2,739	\$3,157	\$3,592	4,044	0.4	0.4	0.4	0.4	12.6
---	Total, Top 25 Countries and % Share of State	\$2,681	\$3,088	\$3,512	3,993	97.9	97.8	97.8	98.7	13.7
1	Japan	\$1,032	\$1,190	\$1,181	1,096	37.7	37.7	32.9	27.1	-7.2
2	Korea, South	\$567	\$580	\$684	726	20.7	18.4	19	17.9	6.2
3	China	\$154	\$242	\$337	474	5.6	7.6	9.4	11.9	40.6
4	Canada	\$231	\$247	\$222	445	8.4	7.8	6.2	11.2	100.8
5	Germany	\$113	\$147	\$180	242	4.1	4.6	5	6	34.1
6	Spain	\$38	\$70	\$71	144	1.4	2.2	2	3.6	101.2
7	Mexico	\$72	\$108	\$166	129	2.6	3.4	4.6	3.2	-22.2
8	Netherlands	\$97	\$92	\$114	125	3.5	2.9	3.2	3.1	9
9	Switzerland	\$94	\$93	\$103	115	3.4	2.9	2.9	2.8	11.4
10	Belgium	\$51	\$53	\$38	94	1.9	1.7	1.1	2.3	145.7
11	Hong Kong	\$50	\$28	\$49	61	1.8	0.9	1.4	1.5	25
12	Australia	\$17	\$23	\$33	52	0.6	0.7	0.9	1.3	60
13	Portugal	\$12	\$31	\$36	43	0.5	1	1	1.1	22.4
14	Finland	\$16	\$19	\$22	39	0.6	0.6	0.6	1	79.7
15	United Kingdom	\$13	\$12	\$21	37	0.5	0.4	0.6	0.9	75.9
16	France	\$19	\$39	\$34	29	0.7	1.2	0.9	0.7	-14
17	Italy	\$17	\$2	\$27	25	0.6	0.1	0.8	0.6	-9.5
18	Chile	\$5	\$12	\$19	23	0.2	0.4	0.5	0.6	24.2
19	Norway	\$16	\$32	\$25	22	0.6	1	0.7	0.5	-12.5
20	Thailand	\$33	\$32	\$30	18	1.2	1	0.8	0.4	-39.8
21	Taiwan	\$18	\$20	\$17	14	0.7	0.6	0.5	0.3	-19.9
22	Singapore	\$5	\$3	\$77	11	0.2	0.1	2.1	0.3	-85.8
23	Russia	\$5	\$8	\$8	11	0.2	0.2	0.2	0.3	27.5
24	Lithuania	\$7	\$7	\$16	10	0.3	0.2	0.4	0.3	-34
25	Ukraine	\$0	\$1	\$3	9	0	0	0.1	0.2	205.3

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

Figure 35. The number of export partners continues to increase. Source: U.S. Census Bureau, Economic, Foreign Trade Statistics by State - 2006

