

# RESOURCE *review*

akrdc.org

A periodic publication of the Resource Development Council for Alaska, Inc.

March 2016



## RDC advocates for long-term fiscal plan

In late January, more than 40 RDC board members from Alaska's natural resource industries and support sectors participated in the organization's Juneau Fly-in to advocate for a long-term fiscal plan – one which would limit Unrestricted General Fund spending to a sustainable level and use Permanent Fund earnings to help balance the budget.

Over the course of two days, RDC met with Governor Walker, legislators, and administration officials over the State's fiscal challenges and the administration's proposed fiscal plan to close the State's \$3.8 billion budget gap.

The proposal would close the gap with a plan that relies heavily on converting the Permanent Fund into an endowment model which would directly capture oil revenue and release a steady flow of investment earnings to help fund essential government services. The plan also includes a personal income tax to raise \$200 million, modest reductions to the operating budget of about \$100 million, and targeted tax increases on the oil and gas, mining, tourism, and fishing industries.

While thanking Governor Walker for putting a comprehensive plan on the table for discussion, RDC warned of the unintended consequences of tax increases on Alaska's resource industries.

"Increasing taxes on our natural resource industries at a time of low commodity prices for oil, gas, minerals, and fish will compound a bad situation and deter new investments, further damaging our private sector economy and shrinking the revenue pie for everyone," said RDC Executive Director Marleanna Hall.

The fly-in was sponsored by Alaska Airlines, ASRC Construction Holding Company, Caelus Energy Alaska,

Please see pages 6-9 for reaction from the oil and gas, mining, fishing, and tourism industries on Governor Walker's proposed industry tax bills



Governor Bill Walker addresses RDC board members in Juneau last month on his proposed fiscal plan. RDC agreed with the governor in that Permanent Fund earnings need to be part of a long-term, sustainable solution to Alaska's fiscal crisis.



At left, RDC President Ralph Samuels warns Senate President Kevin Meyer the more Alaska taxes commodity-producing companies, the less likely they will invest in future production, making matters worse for Alaska's private and public sectors. At right, Representative Matt Claman addresses the RDC Board.



ConocoPhillips Alaska, Inc., Donlin Gold, ExxonMobil, Hecla Green Creek Mine, Holland America Line, The Lakefront

Anchorage, Lynden, Sealaska Corporation, and Usibelli Coal Mine, Inc.

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

Past issues of the Resource Review (1978-2015) are available at akrdc.org.





# We all feel the pain of another company leaving Alaska

Recently, Apache Corporation announced it would no longer operate in Alaska. It is a significant loss for Alaska and an even bigger loss for the Cook Inlet region. Apache, while it operated here, spent millions of dollars on direct jobs and contractors.

The loss of yet another company that will no longer operate in Alaska will be felt by all Alaskans as we see more jobs lost and the negative economic impacts from this loss compounded. The low oil prices we see today and have seen the last 18 months are not only hurting the state budget, but also the bottom line of the companies that rely 100% on the price of oil.

Apache wasn't just an employer of Alaskans, it was a company that put a lot of emphasis on protecting the environment and wildlife. Additionally, the departure is yet another blow to Cook Inlet and Southcentral - remember the threat of rolling brown outs in Southcentral when gas shortages were a concern.

The Texas-based company began exploring in Cook Inlet in 2010. It was involved in the Cook Inlet beluga whale recovery plan, and from 2011 to 2014, collected data indicating that the beluga whale population was not adversely affected by its activities. These science-based studies have provided a significant amount of new information to state and federal agencies, which would have otherwise not been available without the industries that paid for them.

RDC has long been involved in protecting the Cook Inlet beluga whale while pushing back against overly burdensome protections, like unnecessary critical habitat designations. The Natural Resource Defense Council has teamed up with actor Pierce Brosnan to oppose Apache operations in Cook Inlet. The

campaign mistakenly lists a lower number of the animals and implies the oil and gas industry is the reason for the large decline in the population.

In actuality, during peak exploration of Cook Inlet in the 1970s National Marine Fisheries Service studies showed the population of the Cook Inlet beluga whale did not decline.

Due in part to high costs and our extreme climates, Alaska struggles to compete with other jurisdictions, and too often companies choose to invest elsewhere. I believe that Alaskans, if given half the chance to do it right, will succeed.

But also, cost matters. As Alaskans, it may be "our oil," but unless we are going to develop it ourselves, we will need to continue our partnership with past, present, and future producers.

I agree with U.S. Senator Lisa Murkowski, "This announcement reflects the current state of the oil and gas industry across the world and the United States, not just Alaska," Murkowski said. "We appreciate Apache's investment in our state, and look forward to working with the company again in the future, to explore and produce Alaska's prolific oil and gas resources."

We can hope to see a return to Alaska by companies like Apache, or we can do more than hope and actually take action to make Alaska a competitive place to do business: stable tax structure, access to resources, a streamlined permitting process, and a trained workforce.

As we continue to face a state budget deficit, and ratings agencies continue to downgrade Alaska's credit, we must do what we can to draw what little investment money there is available for oil and gas exploration and development.

## Karen Lane joins RDC staff

The Resource Development Council is proud to welcome Karen Lane as the Membership and Projects Coordinator. Lane's first day was February 8<sup>th</sup>.

Lane previously worked for Cook Inlet Region, Inc. as a Project Assistant for Land & Resources. Prior to that, she worked in the tourism industry as a Mountain Administrator for Alyeska Ski Resort and also spent five years commercial fishing.

Lane has followed several issues RDC continues to work on. "Given my background in various resource development industries, I'm really excited to be at RDC and look forward to my new role."

Lane will primarily work with RDC's diverse membership to recruit and retain individuals and companies, but will also work on issues and communications.

"We are happy to have Karen join our small but effective team, and know that her experiences in Southeast and Southcentral Alaska will be an asset to RDC," said Marleanna Hall, Executive Director. Alaska-raised, Lane enjoys the many opportunities Alaska has to offer; fishing, snowboarding, camping, biking, and traveling.



## Sturgeon awaits Supreme Court decision on ANILCA case

In January, the U.S. Supreme Court heard oral arguments in John Sturgeon v. National Park Service, a case questioning whether the federal government has authority over navigable waters and therefore private property in Alaska's conservation system units.



Sturgeon, a moose hunter barred from using his hovercraft by the Park Service, argues that a provision in the Alaska National Interest Lands Conservation Act withholds authority from the federal government for setting rules for waters in national parks. The outcome of the case could determine who controls state and Native property located within the outer boundaries of conservation system units.

Judging from reactions of the justices during the oral arguments, Sturgeon believes he has a fair shot of winning the case. The high court's decision is expected by late May or June.

Sturgeon provided an update on the case at an RDC breakfast meeting March 3. Please see a video of his presentation at [akrdc.org](http://akrdc.org).



# Donlin Gold offers a beacon of hope

Donlin Gold has been a hot topic of conversation given the recent release of the project's draft environmental impact statement (EIS) by the U.S. Army Corps of Engineers. Much of the general public is becoming aware of the project and familiarizing themselves on its attributes for the first time. But for those who call the Yukon-Kuskokwim region home, and for Calista Corp. shareholders and descendants, Donlin Gold has been an ever-present entity, topic of conversation and ally for the past 20 years.

As stewards of the land and owners of the resources, we do not take such a significant project lightly. Under the Alaska Native Claims Settlement Act (ANCSA), Calista is mandated to responsibly develop our shareholders' natural resources to improve their socio-economic lives.

Donlin Gold has taken great strides in planning a responsible project, continuously working with Calista board members, and undergoing extensive environmental baseline studies since 1996. They have also held numerous meetings to hear stakeholders' thoughts while determining the economic and environmental feasibility of the project.

Donlin Gold's proposed project is a culmination of the extensive research performed in conjunction with input from stakeholders, whose voices were key in shaping the project. In the past, many expressed concern over the amount of proposed barge traffic on the Kuskokwim River. An underground natural gas pipeline was introduced as a solution, significantly reducing the amount of barge traffic and fuel barged to the proposed development.

Donlin Gold has also made it a priority to incorporate industry-leading technology. It will be the first large mine in Alaska to use a synthetic liner underneath its entire tailings impoundment.

During a time when oil revenue is dissipating at an alarming rate; Permanent Fund dividends face reduction, limitations or elimination; and funding in the Calista region continues to be cut, an environmentally responsible project offers a beacon of hope to our region, which is economically the poorest in the state.

The U.S. Census Bureau reports the Calista region has some of the highest unemployment rates in the nation, yet our energy rate, and food and transportation costs are some of the highest. The situation is far more grim than the unemployment rates even portray, as to be considered unemployed you have to be actively seeking a job.

Through ANCSA's 7(i) and 7(j) revenue sharing provisions, the Donlin Gold project will provide revenue to all Alaska Native regional and village corporations, including Calista. The Donlin Gold project offers an opportunity to satisfy the intent of ANCSA to benefit all Native corporations in this struggling state economy and a much-needed infusion of cash into the village corporations in the Y-K Delta.

Calista has ownership of mineral rights in the proposed mining area, and Donlin Gold has ensured hiring preferences for qualified Calista shareholders, descendants and their spouses, and bidders' contracting preference for Calista subsidiaries. An estimated 3,000 jobs will be created during the construction phase of the project, which is anticipated to last three to four years. As it moves forward into the 27-year operation phase, 600 to 1,200 high-paying, full-time



The proposed Donlin Gold mine has the potential to improve the quality of life and provide jobs for residents in the Kuskokwim region.

jobs will exist because of the Donlin Gold mine. Donlin Gold's 90 percent local hire record during the exploration period serves as a testimony to its commitment to hiring locals.

When discussing socio-economics and subsistence, many split the two subjects. However, the people of the land are those best qualified to speak on subsistence. They know the topics of socio-economics and subsistence cannot be separated, for without a source of income, we cannot afford a subsistence way of life, a life that, to the surprise of many, is not cost-free.

The modern day supplies required to hunt, fish and gather all have a price. Gas, snowmachines and ATVs are all equipment and supplies we rely on to practice subsistence, and they are often supplies the people of the Calista region cannot afford without jobs.

As a drug-free and alcohol-free workplace with an emphasis on work safety, Donlin provides the region the possibility of less substance abuse, a potential borne out during the exploration phase of the project when many of our shareholders and descendants became eligible for hire after initially failing drug and alcohol tests.

We cannot afford to say no to an environmentally responsible project like the Donlin Gold mine, which will improve our quality of life and provide ample jobs, a strong financial future and viable opportunities where there are none.

Calista Corp. and its board of directors strongly support and recommend that Donlin Gold move forward with development of our land and encourage the public to submit comments in support of the U.S. Army Corps of Engineers' draft EIS alternative No. 2.

If you have questions or concerns, I encourage you to gather the facts. Visit [donlingold.com](http://donlingold.com) and read the project description book and watch the project overview. Your written comments on the project can be submitted at [donlingoldeis.com/Comment.aspx](http://donlingoldeis.com/Comment.aspx).

Andrew Guy is president and CEO of Calista Corp. Born and raised in the village of Napaskiak, Guy began his career with Calista as an intern in a subsidiary doing financial analysis. He later served as vice president with Yulista Management Services, and eventually joined the Calista executive team as general counsel. He became CEO in 2010.



# Court ruling on polar bear critical habitat will have impact

The U.S. Fish and Wildlife Service's (USFWS) designation of more than 187,000 square miles of the Alaska Arctic as critical habitat for polar bears will stand after the federal 9th Circuit Court of Appeals reversed a 2013 lower court decision that found the designation was too extensive and not specific.

In 2008, the federal government listed the polar bear as threatened under the Endangered Species Act, citing melting ice and highly speculative climate change modeling reaching out 100 years. The USFWS declared virtually all of Alaska's northern and northwestern coastlines, as well as vast areas of the Chukchi and Beaufort seas as critical habitat.

The critical habitat designation includes areas that account for much of Alaska's current and potential future oil and gas production.

"Critical habitat being re-designated in its entirety will have a negative effect on the oil and gas industry in Alaska," said Kara Moriarty, President and Chief Executive Officer of the Alaska Oil and Gas Association (AOGA). "The most immediate consequence



The polar bear was the first species listed under the Endangered Species Act because of global warming.

is that it will dramatically increase the costs associated with projects on the North Slope. Additionally, with critical habitat of such monumental scope, future projects will likely be jeopardized."

Arctic Slope Regional Corporation (ASRC) expressed concern and frustration over the appeals court decision. "Clearly, it is another egregious example of federal overreach when it comes to the limited rights and protections the Alaska Native

community has on its own lands," said ASRC President and CEO Rex Rock, Sr. "This appellate court's finding threatens to impede much-needed economic development in our region at a time when the state's economy is already unstable. It could also make the cost of goods and services even steeper."

Rock added, "As I have said in the past, this wrong-minded decision will adversely affect the indigenous people and communities across our region, with the area now set aside larger than the state of California. The science used to justify the ruling is inappropriate and does not reflect the dynamic ocean sea ice regime or the life cycle of these animals. Through this process the USFWS and now the Ninth Circuit is wrongfully burdening the people of the North Slope."

For more than five years, ASRC and the North Slope Borough have been leading a coalition of Alaska Native groups from the North Slope, Northwest and Southwest Alaska to fight that ruling in court. AOGA and the State of Alaska also challenged the ruling.

All parties have until mid-April to file an appeal.

## Women in Resources gather for annual reception

RDC's 12th Annual Women in Resources reception was held last month in Juneau, offering women board members the opportunity to meet with many women legislators and policy makers, as well as First Lady Donna Walker. The event is hosted by RDC's women board members and offers a unique, intimate setting for attendees to discuss issues of importance to RDC's membership.

Thank you to the sponsors of the 2016 Women In Resources reception: Alaska Airlines, Alyeska Pipeline Service Company, Arctic Slope Regional Corporation, Caelus Energy Alaska, LLC, ConocoPhillips Alaska, Inc., ExxonMobil, Kinross Fort Knox, The Lakefront Anchorage, Lynden, Parker Horn Company, Sumitomo Metal Mining Pogo LLC, and Usibelli Coal Mine.



At left, Mary Ann Pease, Resources Energy, Inc., \*Kara Moriarty, Alaska Oil & Gas Association, Angela Rodell, Alaska Permanent Fund Corporation, and Senator Mia Costello, Alaska State Legislature, visit at the Women in Resources reception. At center are First Lady Donna Walker and \*Patty Bielawski, Jade North LLC. At right are Shelly Wright, Southeast Conference, \*Carol Fraser, The Lakefront Anchorage, Kristen Brooks, TEMSCO, Representative Cathy Tilton, Alaska State Legislature, Katriina Timm, HDR. \*Denotes RDC Board member.



# New tax policy will not put more oil in pipeline

By Kara Moriarty

Stop me if you have heard this before: Another legislative session, another proposal to fundamentally change Alaska's oil and gas tax policy, this time from Governor Walker's administration. In times like this, my thoughts return to the basic rules of economics that experts and analysts use to explain how a particular policy will affect behavior. Goodness knows, we in the resource industry have those talking points down after so many tax debates. It is worth remembering why the current oil and gas tax policy was put into place, and what results we have seen to date.

First, the simple rule of economics that serves as the foundation for all others is this: People and businesses respond to incentives. Though the law is simple, its applications are nearly unlimited. People do more of something when the reward increases. When you incentivize something, you get more of it.

In the case of our oil and gas tax policy, this rule certainly holds true. The premise for changing our oil tax law in 2013 followed this logic precisely: Alaska wanted more investment dollars to flow to Alaska. We wanted more oil in the pipeline, and more jobs for Alaskans. In the first few years after the new tax law went into effect, Alaska saw \$5 billion in new investments on Alaska's North Slope. The sudden and dramatic drop in oil prices have slowed progress as companies struggle with negative cash flows, but Alaska is in a much better position because of those investments. In all respects, the tax policy, including credits, have done what they were designed to do.

Of course, the opposite is true, too: People do less of something when the penalty or cost increases. If you want less of something, tax it. This seems like a no-brainer, but it needs to be emphasized given what we are facing. If anyone thinks

companies that are swimming in red ink will keep investing or invest even more by increasing their costs, I have a bridge in Brooklyn to sell you. And this is not limited to the oil industry—our friends in the mining and fishing industries say the same thing. Want less oil in the pipeline? Increase the cost of pulling it out of the ground. Want less minerals mined in Alaska? Make it more expensive to operate

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# Tax policy would shrink industry

By Karen Matthias and Deantha Crockett

The Governor's "mining tax bills" (HB 253/SB 137) prompt the question: what is Alaska's mineral tax policy? Should the State focus on short-term gain and take more money out of an industry beset by declining commodity prices and rising operational costs? Or should it look to attract investment and grow the industry resulting in more jobs and greater government revenues? Frankly, we don't know what the policy is because it has been absent from the discussion.

The bills would raise the upper bracket of the Alaska Mining License Tax (AMLT) from seven to nine percent. Disturbingly, this 29 percent increase in the tax payment has been proposed with no supporting analysis on its impact to Alaska's mines. Don't get us wrong, this is not about "taxing the other guy." We aren't opposed to paying taxes. We already do.

Our members have had to make tough decisions to optimize operations, cut budgets and eliminate positions over the past four years. Thus, we understand the

State's fiscal challenge and concur with many key elements of the Governor's fiscal plan.

The Alaska Miners Association and RDC have been consistent in our message: to achieve fiscal sustainability, we support strategic reductions in the cost of government, use of the Permanent Fund earnings, and broad based revenue measures to fill the remaining gap. However, targeting a few resource industries is divisive, discourages investment and doesn't balance the budget.

Once again, what is Alaska's mineral tax policy? Presumably we want to find the balance between a reasonable share for the State and attracting industry investment. Why? Because a robust mining industry contributes to Alaska's economic diversity by providing good jobs, opportunities for local businesses, increased government revenue, and revenue sharing to Alaska Native corporations.

In his State of the State address in January, Governor Walker said that if Alaska were a

country, we would be the 8th most mineral rich nation in the world. But despite billions of dollars spent on dozens of exploration projects since the 1980s, we currently only have five large metal mines and one coal mine. Alaska has unique infrastructure challenges that result in longer and more costly development timelines. If our rich deposits were in Nevada closer to roads, rail and power, they would probably already be operating mines.

Given our high costs, we need a tax policy that makes Alaska competitive and encourages investment. Alaska is home to

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RESOURCE DEVELOPMENT  
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- For more than 20 years, RDC has advocated for a long-term fiscal plan, including efforts to limit Unrestricted General Fund (UGF) spending to a sustainable level, support some use of the Permanent Fund earnings as part of a fiscal plan, and tax policy and incentives that encourage future investment in Alaska's resource industries.
- The state's operating budget is on an unsustainable path. UGF spending has increased 230 percent in 10 years while revenues have fallen.
- Permanent Fund earnings need to be part of a long-term, sustainable solution to Alaska's fiscal situation.



# Vessel passenger tax proposal misses the mark

By John Binkley

Alaskans are preparing for what is expected to be a banner visitor season, with more than two million guests expected this year. These visitors will spend over \$1.8 billion in our economy, create over 40,000 jobs and generate nearly \$4 billion in total economic activity.

With the State of Alaska facing a \$3.8 billion budget shortfall, visitors — like all Alaskans — should be a part of the solution.

However, the proposal in HB 252 and SB 136 misses the mark.

Of the two million visitors to Alaska, one million arrive aboard cruise ships; the rest come by air, on Alaska ferries or over the highway. The State currently taxes only cruise ship visitors an entry fee of about \$35 each to come into Alaska. There are one million more people coming to Alaska each year that do not pay that same entry fee.

The current bill proposes to raise the cruise ship passenger entry fee by \$15.00, for a total entry fee of about \$50.00 per person, just for cruise ship passengers. The obvious question is: why not charge the other one million visitors \$35 instead of raising the entry fee \$15 on just one half of the visitors?

The answer to that question lies in our U.S. Constitution. The founders of our country decided from the beginning that citizens of the United States were to be free to travel and do business from state to state without a toll booth being set up at every state border you might cross. Thus,

the Commerce Clause in Article I of our Constitution.

This creates a dilemma for our desire to tax visitors traveling to Alaska, just like it protects us from a similar entry fee tax if we visit other states.

The solution that other states and some local communities in Alaska have found, is to tax the commerce that is produced from the visitors. They accomplish this through broad-based taxes such as a statewide sales or income tax. Although I am not advocating it, the 40,000 tourism jobs and \$4 billion in economic activity from visitors could help pay additional support to our state government.

A second problem with HB 252, and with the current entry fee tax on cruise ship visitors, is that the funds collected are “restricted” general funds. That means that they cannot be used to pay for general government services. They can only be used to pay for infrastructure or safety

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## DEVELOPMENT COUNCIL

in Responsible Resource Development

- Budget cuts and taxes alone cannot bridge the fiscal gap. Alaska needs to use Permanent Fund earnings, but only in a sustainable manner.
- To sustain our economy, Alaska needs to encourage new investment, jobs and production by maintaining a stable, competitive tax structure. Conversely, the more Alaska taxes commodity-producing companies, the less likely they will invest in future production.
- Alaska’s natural resource industries are not asking for a decrease in taxes like many other states and countries are considering, but they are asking for stability, which includes a fiscal policy that encourages investment in our state and keeps Alaska open for business.

By Glenn Reed

Alaska enjoys the well-earned reputation of having the best managed fisheries in the world. Alaska’s fisheries resources are healthy and abundant. This is the direct result of Alaska’s long-term approach to sustainable management as memorialized in the State Constitution and the Magnuson-Stevens Act.

Seafood processing companies and the harvesters that deliver to them provide thousands of crew, processing and support related markets to thousands of Alaskan fishing vessel owners and their crews, many of which are small family-owned businesses. These harvesting jobs and the tens of



Fishing

## Seafood industry faces losses, too

thousands of processing and support-related jobs provide significant economic activity throughout coastal Alaska. A strong seafood industry is an important component of the resource-based economy Alaska has long depended upon and will continue to depend on during these challenging times and well into the future.

As Alaska faces this long predicted fiscal situation, we realize that all citizens and industry groups will need to be part of the solution. The foundation of the approach to addressing the fiscal situation has been discussed for many years: reduce government spending; develop broad-based revenue sources that involve everyone; and if necessary, consider additional revenue possibilities.

Like all of Alaska’s resource industries, we sell our products on global commodity markets as “price-takers.” When costs are added due to exchange rates, taxes, other fees, or a combination of these factors, those costs cannot be passed on to consumers.

Many Alaskan seafood businesses are in their second or third year of consecutive net losses, unheard of for many operators.

Over the past few years:

- The minimum wage in Alaska has increased by 26 percent;
- Wage scales above the minimum have also experienced double digit percentage increases;
- The strengthening U.S. dollar has resulted in a 25-30 percent loss of buying power against foreign currencies;
- The majority of seafood sold in the U.S. is imported. Foreign seafood suppliers from areas where currencies are devalued against the dollar (e.g. - Norway, Chile, Asia) are increasing exports of cheaper products into the U.S., harming domestic market share;
- Important markets have been lost in Russia (Putin’s embargo) and Ukraine (military conflict with Russia) creating additional pressure on remaining markets;

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# Higher oil taxes will harm Alaska's largest industry and the economy

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here. Want fewer Alaska fish caught and sold? Ask fishermen to pay more despite fish prices being at historic lows.

This may sound overly simplistic, but this is the scenario we are up against with the governor's tax proposal. In hearings on the administration's oil and gas tax bill, several legislators have had many valid questions. How will increasing taxes on an industry that is struggling make things better for Alaska? Will investments continue? Will we see more oil, or even the same amount of oil, moving through the pipeline?

In a moment of stunning clarity, officials with the administration admitted that the current tax policy was attracting more dollars to Alaska, but the State needed more money. In more blunt language, it is a money grab. Surely, we can agree that throwing out a successful policy not because it needs

improvements, but because government is cash-strapped, is not the best lens through which to view making big changes.

In the spirit of pulling together, and in order to make it through the current economic downturn, it cannot be emphasized enough that imposing significant tax increases and eliminating access to critical incentives does nothing to increase oil and gas production. It creates more harm to Alaska's largest industry and the state's economy as a whole.

My members are not asking for a decrease in taxes during this period of low oil prices like many other states and countries are considering, but we are asking that, as the state considers changes to tax policy, not to harm an industry that is already in peril.

Kara Moriarty is President & Chief Executive Officer of the Alaska Oil & Gas Association.



**"In a moment of stunning clarity, officials with the administration admitted that the current tax policy was attracting more dollars to Alaska, but the State needed more money."**

# One new mine could produce more revenue than tax

(Continued from page 6)

more than a dozen advanced exploration projects and just one going into production could bring more revenue to the State than what is proposed in these bills.

The State should focus on reasonable, predictable regulation and attractive fiscal terms. The global mining industry is in a prolonged downturn and we have already seen a 71 percent decrease in exploration activities since 2012. This is one example of the fragility of mining economics and reinforces that the State needs policies that encourage investment.

We also question the proposed elimination of the 3.5 year AMLT exemption for new mines. This change will not result in any immediate new revenue for the State, but it sends a negative message to investors and possibly tips the economic feasibility scale of some projects which would result in less future state revenue. Surely this is not the State's mineral tax policy?

The State must keep its eye on the prize,

keep our current operations strong and bring new mines into production to increase the taxpayer base. Many Alaskan communities, hundreds of Alaska businesses and thousands of Alaska miners and their families depend

on a healthy mining industry.

Karen Matthias is Managing Consultant of the Council of Alaska Producers and Deantha Crockett is Executive Director of the Alaska Miners Association.





# New cruise passenger entry fee would violate settlement

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measures that benefit the ship that the passenger arrives on. This is very similar to the current passenger facility charge paid on some airplane tickets; those funds must be spent only at the airport where the passenger arrives or departs.

The third problem is that the current rate of \$35 per passenger as an entry fee for cruise passengers, was determined through a settlement agreement and change in the tax rate back in 2010. The proposed increase could jeopardize the entire tax.

I applaud Governor Walker for taking the initiative to bring forward specific proposals to solve our fiscal problem, and while it might be appropriate to question whether visitors are contributing enough given the State's fiscal challenges, HB 252 is not a solution.

John Binkley is President of the Alaska Cruise Association and CLIA Alaska.

**“I applaud Governor Walker for taking the initiative to bring forward specific proposals to solve our fiscal problem, and while it might be appropriate to question whether visitors are contributing enough given the State’s fiscal challenges, HB 252 is not a solution.”**



# Negative factors converge on seafood industry

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- The market for pollock roe has collapsed;
- Smaller size fish in the salmon, halibut, and pollock fisheries over the last couple of years are valued less by our customers;
- Current Administration proposals being heard in the Alaska legislature suggest 20-33 percent tax increases, and there are additional tax proposals specific to the seafood industry that have been introduced in the Legislature.

It is unusual that so many negative factors have intersected at one time. While oil prices have put the economy of Alaska in a tailspin, these lower fuel costs have been one positive factor in reducing costs in our industry.

We are encouraged to see the Governor and the legislature continue to focus on reducing the costs of government, and we understand the need to consider broad-based, new revenue sources.

Specifically, cost cutting should responsibly avoid revenue producing activities. We are prepared to do our part,

and would like to be part of any discussion on tax proposals that would affect the seafood industry, to help ensure a level playing field in our industry.

On the positive side, Alaska Seafood is a strong brand; in fact, for the first time the Alaska seafood brand takes top billing among protein brands featured on menus across the nation. We have a healthy, abundant, and well managed sustainable resource that is recognized and envied around the world.

**“Specifically, cost cutting should responsibly avoid revenue-producing activities.”**

Glenn Reed is President of the Pacific Seafood Processors Association.





## From the President – Ralph Samuels

# It's not all about the budget, it's about the economy, too

All Alaskans know about the price of oil. Some are aware that the production of oil is a quarter of what it was at its peak of 2.2 million barrels per day. However, there are other signals that the private sector is sending about the health of our overall economy. In no particular order:

- Salmon prices are way down, and expected to stay down for the short term.
- Gold prices, even with recent upswings, are down.
- Zinc production is down.
- Usibelli coal production is down from 2 million tons annually to 1.2 million.
- Lower commodity prices for all of these industries will lead to less capital investment, fewer private sector jobs, and fewer developed commodities when prices do indeed rebound.
- Oil industry layoffs by major and smaller companies alike, as well as the associated contracting community layoffs are in the hundreds and growing.
- Health care costs for private sector companies continue to rise.
- There is potential litigation over the Northwest Arctic Borough tax policy regarding Red Dog Mine, which leads to uncertainty over other large-scale projects, in all industries.

Given all of this as a backdrop, Alaskans should be wary of proposals that increase the cost of business for investors. As a community, we should be focusing on growing the economic pie rather than having a debate over which taxes we will increase first. There are opportunities for us to get more investment from industries, which will help Alaska in the long run.

While RDC is well aware of the State budget shortfall, we strongly feel that shrinking the job creators and responsible resource developers will actually make the State's problems worse. We should encourage more oil production, more mineral investment, more

fishing industry investments in infrastructure and more visitors to the state.

If these individual economic engines get smaller, the State will be in worse shape, and have fewer resources to solve those problems. The debate should concentrate not only on the State budget, but on the overall economic health of Alaska. If we choose to do what is best for only the government in the short run, both the government and the private sector will be hurt for the long term.

In August of last year, the RDC joined a number of other groups, businesses and individuals in encouraging the State to incorporate a reduction of State expenditures to a sustainable level, and then use some of the Permanent Fund earnings to pay for government. Absent budget reductions, we fear that the pressure to reduce the budget to a sustainable level will be gone and we will burn through resources at a level we cannot afford over the long term. If this happens, we will simply have the same discussion in several years we are having now, albeit with less resources to fix the problem.

The private sector is what drives the economy. Policies should be set which do not hamper the private sector's ability to invest and grow. If we set policies which thwart the ability of the private sector to expand and attract investment, the government will eventually contract, as the source of the income contracts.

Overbearing taxes and a burdensome regulatory environment change the economics of projects. Since capital is limited, and the demand is global, Alaska must compete for investment dollars whether they are for mines, oilfields, fish plants or cruise ships. Alaskan policy makers must keep in mind that we are in a global economy.

We must be vigilant in ensuring the debate amongst our friends, neighbors and coworkers is about the health of the overall economy and not simply the State budget.

## Alaska's credit rating downgraded by Moody's

Late last month Moody's Investors Service downgraded Alaska's general obligation debt to AA1, one notch below the gold standard of AAA. Fitch Ratings affirmed its AAA rating for Alaska but put the state on negative watch. The downgrade reflects Alaska's "unprecedented structural imbalance" as it struggles to address its \$3.8 billion deficit brought on by low oil prices.

"Even with significant spending reductions, recurring revenues cannot keep pace with recurring expenditures, and the State would deplete its main budgetary reserves by fiscal 2019, absent significant changes in its financial framework," Moody's said.

In January, Standard and Poors also downgraded Alaska's credit.

Fitch acknowledged positive aspects of the State's finances, including substantial savings, moderate debt levels, and altered its oil production tax to bring in more income than its predecessor in the current low-oil price environment.

The downgrades will make it more expensive for Alaska to service its debt.

"I'm disappointed by the news, but I'm confident that we can pull together to improve our fiscal outlook," said Governor Walker. "These actions underscore the need to resolve our fiscal situation as soon as possible. My administration and I will continue to work with the legislature to that we can make Alaska attractive to investors."

## New study shows economic crash on horizon

A new study by the Institute of Social and Economic Research (ISER) at the University of Alaska Anchorage outlines the severity of an economic crash in the magnitude of the 1980s recession or worse, especially if the Alaska Legislature fails to adopt a fiscal plan to address the state's \$3.8 billion deficit.

The study indicates that up to 30,000 direct and indirect jobs could be lost in the economic downturn, even if the Legislature exercises good options in closing the current deficit.

The report, "Economic Impacts of Alaska Fiscal Options," doesn't look at the impact of higher oil taxes on future industry investment and production due to time and funding. It looks only at the economic impacts of future changes to state spending and broad-based taxes and doesn't consider the impact of private sector reaction to taxes.

## AOGA paper outlines impact of oil tax proposal

The Alaska Oil and Gas Association (AOGA) has issued a white paper on Governor Walker's recent oil and gas tax proposal HB 247. The proposed legislation will chill future investments and lead to less production and state revenue over the long term, AOGA warns. The paper is available at [akrdc.org](http://akrdc.org).



# Industry *digest*

## RDC expresses concerns over Tongass plan

In its comments on the newly-released draft management plan for the Tongass National Forest, RDC expressed concerns with the practical viability of the proposed accelerated transition to predominantly young-growth harvests. RDC also expressed concern about the adequacy of a U.S. Forest Service analysis of young-growth timber inventory, Native corporation lands, other timber supply, economics, and communities.

RDC noted there needs to be a mix of activities in both old-growth and young-growth stands to ensure a viable timber program. "The Forest Service's timber growth and yield model appears to significantly overstate young-growth timber yield and volumes," RDC said. "The industry will need to harvest an adequate volume of old-growth trees for another 30 years to allow second-growth stands to fully mature, which takes at least 90 years for most trees in Southeast Alaska. Allowing second-growth stands to fully mature would roughly double the harvestable volume per acre for Alaska mills."

Additionally, the plan does not discuss the adverse impacts to mining resulting from major federal government policy revisions since 2008. These revisions have severely curtailed access for mineral exploration and development.

RDC said the plan should be amended to include enforceable mechanisms designed to promote mineral and strategic mineral exploration and development and realistic access to mining claims and mining development. In addition, the plan should include alternatives that would make mining part of the multiple use strategy for the Tongass.

With its immense resources, the Tongass has the potential to be the cornerstone of the Southeast Alaska economy where both mining and forest products industries have proven they can coexist with fishing and tourism, RDC concluded.

## RDC proposes timber harvest in Chugach

RDC outlined wide-ranging concerns regarding the future management of the Chugach National Forest and called for the implementation of a true multiple-use mandate for the nation's second largest national forest, in recent comments to the U.S. Forest Service.

The Chugach is the largest national forest in the nation with no commercial timber harvests allowed. Prior to 2002, the forest had an Allowable Sale Quantity of 75 million board feet. In its letter on the forest's proposed management plan revision, RDC said the new plan should allow for an annual harvest of 30 to 50 million board feet, which would impact only a very small portion of the 5.4 million acre forest over the next 100-plus years. An annual harvest would provide timber for local mills, help diversify the economy, and provide jobs for Alaskans.

RDC also recommended the plan allow for specific actions to restore forest health and reduce the risk of wildfire, including modern silviculture practices to encourage natural regeneration.

Among its concerns, RDC noted mineral entry and mining is insufficiently and inconsistently addressed in the revised plan. In addition, RDC opposed proposed Wild and Scenic River designations and stated its opposition to future wilderness designations.

"The cumulative socio-economic impacts of numerous withdrawals and proposed withdrawals of land from multiple-use management must be addressed in the plan," RDC said. "There should be a no net loss in the economic resource base."

Visit [akrdc.org](http://akrdc.org) for recent comment letters on important state and federal public policy issues



- Chugach National Forest Plan Revision
- Tongass National Forest Proposed Management Plan
- Liberty Project Development and Production Plan
- ANILCA comments to U.S. Senate Energy Committee
- RDC Instream Flow Reservation Appeal Letter
- Usibelli Coal Mine Trust Land Determination
- Palmer Project
- Testimony in opposition to HB 253 – Mining Tax
- Testimony in opposition to HB 247 – Oil Tax

## Wolf does not warrant protection under ESA

U.S. Senator Lisa Murkowski welcomed the decision by the U.S. Fish and Wildlife Service to deny listing the Alexander Archipelago wolf as either threatened or endangered under the Endangered Species Act (ESA).

"Alaska has the largest population of gray wolves in America. There is agreement that the gray wolf population in Southeast Alaska is healthy and stable in most places and growing in others," Murkowski said. "At a time when timber harvesting on Prince of Wales Island is barely a tenth of its levels of two decades ago, the attempt by some environmental groups to list the wolf seemed to be an effort solely to end the last of the remaining timber industry in Southeast Alaska. Fortunately, it did not work."

## Pogo Mine celebrates 10 years of success



2016 marks ten years of successful operations at the Pogo Mine near Delta Junction. General Manager Chris Kennedy spoke at the January 21st RDC breakfast meeting. See video and presentation at [akrdc.org](http://akrdc.org).



# RESOURCE DEVELOPMENT COUNCIL

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