

Unique and Diverse

Cook Inlet Region, Inc. represents more than just one element of Alaska's Native heritage. Our shareholders are a unique and diverse mix of Eskimos, Aleuts and Indians from every region of Alaska.

CIRI's role in the resource development community is equally unique and diverse. With extensive surface and subsurface lands in the Cook Inlet area, we are developing gravel, timber oil and gas, coal and hard rock minerals. With the right partnerships and careful planning, our natural resources will be developed in harmony with the environment.

We are committed to preserving our cultural uniqueness and diversity while prudently pursuing development of our resources.

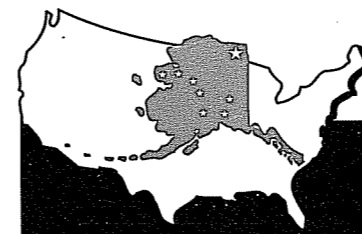


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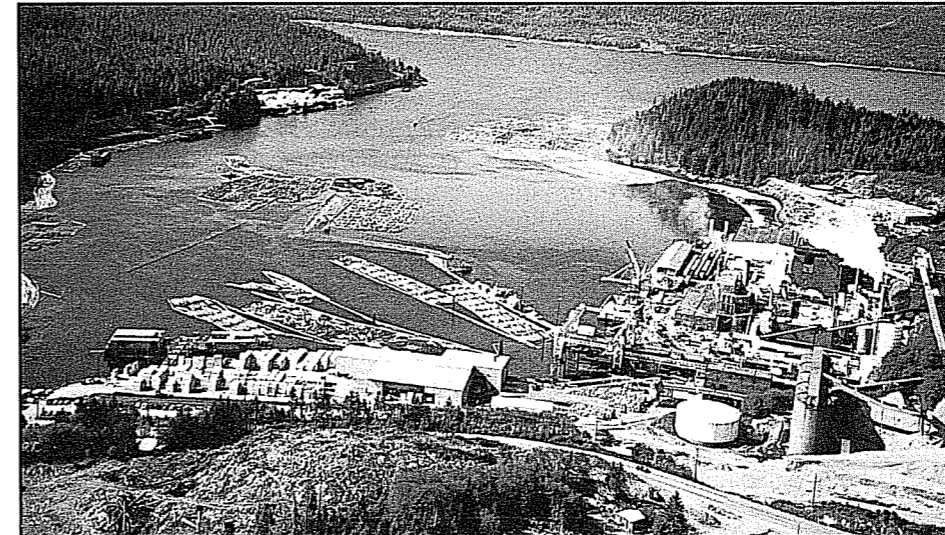
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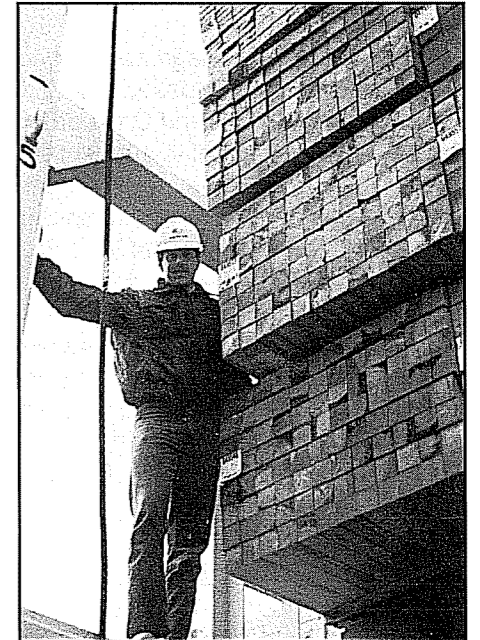
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Resource Review

October 1996 A monthly publication of the Resource Development Council, Inc.



An agreement worked out in Washington, D.C., this month may have spared Ketchikan Pulp Company's two sawmills in Southeast Alaska, but it won't prevent the shut down of the pulp mill with the loss of about 500 jobs.



An October accord between the White House and Senator Frank Murkowski will direct the Forest Service to supply enough timber to maintain KPC's two sawmills in Southeast Alaska for two years. Pictured at the Ward Cove sawmill is KPC's Steve Connelly.

Alaska's last pulp mill set to close

New accord may save sawmills

Given the Clinton administration's refusal to restore the original terms of Ketchikan Pulp Company's (KPC) timber supply contract, Alaska's remaining pulp mill will close next March. However, based on a last minute compromise between the White House and Senator Frank Murkowski,

KPC will enter into immediate negotiations with the Department of Agriculture to determine the feasibility of continuing to run its two sawmills in Southeast Alaska for two more years.

Mark A. Suwyn, Chairman and CEO of Louisiana-Pacific Corporation, said the decision to close the pulp mill was

forced on the company by the federal government's unwillingness to restore critical and essential terms of KPC's original long-term timber supply contract. Wholesale changes to the contract were unilaterally imposed by the U.S. Forest Service following passage of the Tongass Timber Reform Act (TTRA) in 1990, and resulted first in diminished profitability followed more recently by progressively larger operating losses at KPC.

President Clinton had said that he would veto legislation drafted by Murkowski and Congressman Don Young that sought to correct the inequities of the 1990 TTRA and the Forest Service's administration of the contract.

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Message from the Executive Director by Becky L. Gay

Oil and gas OCS lease sales consistent with Alaska Task Force recommendations

The Minerals Management Service (MMS) released its proposed Final Program for Offshore Oil and Gas Leasing for 1997-2002. Beginning August 1996, there is a 60-day review by Congress and the President, after which the Secretary of Interior can approve a Final Program.

All of the scheduled Alaska sales are consistent with the Alaska Regional Stakeholders Task Force recommendations. The Task Force was established by the Secretary of Interior in response to an OCS Policy

Committee recommendation. Members include representatives of Federal, State and local governments; Native, commercial fishing, subsistence users; environmental interests (with Greenpeace allowed a minority report); industry and development communities; and coastal districts in Alaska.

According to MMS, the outer continental shelf (OCS) accounts for about one-fourth of U.S. natural gas production and one sixth of oil production. The OCS is believed to hold one-half of the undiscovered, conventionally recoverable oil and gas resources estimated to remain in this country.

Nevertheless, only five of fifteen planning areas in Alaska made the 5-year lease sale schedule. Eleven sale are scheduled for the Gulf of Mexico. Areas may later be removed from consideration, but new areas cannot be added to the schedule once it is finalized.

The Proposed Final Program for Alaska for 1997-2002 includes lease offerings in the following five areas: the Beaufort Sea in 1998 and 2000 (first a small sale limited to near shore from east of Colville River to west of Barter Island and then a limited number of blocks adjoining near shore State waters east of Barter Island); Cook Inlet in 1999 (excludes areas near Kamishak and Kachemak Bays, the Barren Islands and Shelikof Strait); Gulf of Alaska in 2001 and Chukchi Sea and Hope Basin in 2002, (excludes near shore Chukchi Polynya and most of southern Hope Basin.)

The Task Force considered including the notably-disputed North Aleutian sale, then took it off the list recognizing its continued unsettled status.

Just because the program describes when and where MMS will consider holding lease sales in the future does not mean a sale will automatically occur. Sites will be considered for possible lease sale only after continued consultation with the state and local governments, area communities and industry, and only after the preparation of a draft and final Environmental Impact Statement (EIS).

A document entitled "Sustainable Energy Strategy," guides the Clinton Administration's energy policy. This national energy plan has three strategic goals: 1. Maximize energy productivity to strengthen the economy and improve living standards; 2. Prevent pollution to reduce the adverse environmental impacts associated with energy production, delivery, and use; and 3. Keep America secure by reducing vulnerability to global energy market shocks.

MMS's own investigation of energy alternatives and market responses to curtailment of OCS leasing indicated that 86% loss of oil production and 34% reduced gas production would be replaced by oil imports.

It is hard to get the public excited about news of the next five year offshore program. Maybe it is because there is no production from any federal OCS lease offshore Alaska to date. Or maybe it is because most Alaskans would prefer a vigorous on-shore Federal leasing program, like safely on the coastal plain of ANWR. Instead, the Clinton Administration prefers to support off-shore America. Let us hope the oil industry is equally interested when it comes time to bid. (Becky Gay is a member of the Alaska Regional Stakeholders Task Force.)

The Resource Development Council (RDC) is Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in an orderly manner and to create a broad-based, diversified economy while protecting and enhancing the environment.

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Guest Opinion

by Don Follows, RDC Board member, Tourism Consultant

Heritage tourism here to stay

The visit earlier this year of Deputy Secretary of the Interior John Garamendi to the "last of the lands and the first" was a breath of fresh air for real Alaskans who have watched with clenched teeth the past 15 years as federal administrators regulated local land owners and discouraged park visitors seeking access and circulation to their Alaska park and refuge lands established in 1980.

Our thanks to Mr. Garamendi and his partnership vision for the future of Alaska! The U.S. Department of the Interior administers the National Park Service, U.S. Fish and Wildlife Service, Bureau of Land Management, U.S. Geological Survey and several other "resource-oriented" agencies, none of which have traditionally viewed themselves as players in the heritage tourism industry. Attitudes change slowly!

The U.S. Department of the Interior official has pledged to make federal agencies more "user-friendly" and to encourage partnerships between public and private sectors of the tourism industry, mainly to help government make more money.

The heritage tourism industry is dependent upon western federal lands and national parks, which generate billions of dollars for local communities outside Alaska. National parks are international visitor destinations, a face well known to Alaskans who have watched large internationals dominate the tourism scene since 1980.

For the past two decades, the Resource Development Council has pro-

moted wise development. RDC has encouraged planning and development of visitor infrastructures and tourism facilities. Through its Tourism Division, RDC's goal has been to complement cooperative tourism between state, federal and local entities. Since ANILCA, RDC staff and special committees have reviewed and commented on major federal land planning documents prepared by the Interior Department. RDC has been supportive of the partnership linkage idea.

In 1982, RDC promoted the first public/private partnership between the State of Alaska, National Park Service and private sector tourism interests on the south side of Mt. McKinley, with proposed developments within Denali State Park. Unfortunately, numerous efforts at cooperative planning have failed.

RDC has a long-term involvement with South Denali planning. While it has testified at public hearings, RDC has never been invited to directly participate in planning. Only when governments demonstrate willingness to share with each other will private sector investment become realized.

RDC recognizes and supports the vital interface between state, federal and private sectors, that triad of mutual partners which built the Trans-Alaska Pipeline and other significant projects. So why can't they link up for tourism development?

It is no mere coincidence that thematic tour elements of the Heritage Tourism industry involve scenery, wildlife, geology, history and culture, with some unique outdoor recreation thrown into the potpourri of human experiences. This menu did not emerge from federal agency operations, but from state and private industry which has marketed and promoted Alaska's Great Land themes, worldwide, since 1975.

The beauty of these themes is that they complement intrinsic value systems identified within state and federal units across the state. Complementary communication systems which integrate the intrinsic values of significant re-

source units are common ground for public and private investment. A triad of state, federal and private sector partnerships can accomplish mutually beneficial goals once they set the vision.

Resource interpretation and multiple experience use by visitors is value-added product for the Heritage Tourism industry. It is education about intrinsic values of our vital resources which form the foundation of our proud state, its conservation lands and emerging tourism industry. It is our legends of the landscape that form the nucleus of future heritage tourism experiences and the potential for private sector involvement in marketing commonalities.

Government needs a new resource management strategy which places people and not "things" into the central equation! Resource agencies forget that visitors are most important natural and cultural resources! People are seen as problems in national parks and not as potential solutions! With good resource education programs supported by private industry, customers will come to better understand both tangible and intangible value systems at work simultaneously within these environments.

Strategies must emerge centered around resource interpretation of our scenery, wildlife, history and culture. They should focus on the multiple experience use of park lands and not on physical abuse of lands. Both private industry and government have the same thing in common — the need to win the hearts and minds of visiting publics.

Successful partnerships in the future will involve "things" or destinations so much as they will involve people's positive memories and multiple experiences use options. In Alaska, the destination is not as important as the experiences visitors enjoy along the way. Creative partnerships centered around this market truth will have tremendous success! (Don Follows is a tourism consultant and small business owner. In the 1970s, he helped define ANILCA.)

RDC's November conference to focus on Alaska's ability to attract investment capital

Mark calendar for November 21-22

The global market is competitive, but that's where capital circulates, and that's where Alaska's resource developers, producers and service providers must compete in order to thrive.

Alaska's ability to attract investment capital to develop and transport its natural resources, goods and services is the next big challenge for the 49th state.

Questions must be asked and answered about Alaska's ability to enhance its regulatory and political climate so new investors can be attracted. How can Alaska overcome barriers and encourage new investment? How does Alaska's risk-reward profile shape up against international projects that are competing for the same pool of limited capital? What will it take to convince international investors that Alaska is ready to compete for investments?

To find out, attend RDC's 17th Annual Conference on Alaska's Resources November 21-22 at the Captain Cook Hotel.

"Sharpening Alaska's Competitive Edge: Competing for Capital in a Global Economy," will focus on how Alaska businesses can compete for capital. RDC will offer timely updates on Pacific Rim markets and how new international ventures will affect Alaska's success in securing capital.

To complement the private sector and financial perspectives, state and federal decision-makers will outline Alaska's approach to global competition. And Governor Knowles' new economic development initiative -- Marketing Alaska -- will show how the private sector fits into the overall plan.

And since many key investment decisions are dictated by action at the Congressional level, there will be a specific analysis of how the 1997 Congress can be expected to deal with

issues such as the Mining Law, Endangered Species Act reform, wetlands regulation, property rights legislation, Tongass logging and ANWR.

RDC conferences feature the All-Alaska Expo, as well as gourmet breaks, luncheons and networking opportunities.

Governor Tony Knowles will present the Thursday keynote luncheon address while Bill Horn, a former Interior Department official now specializing in Alaska land and federal regulatory issues, will evaluate the November election at the Friday luncheon.

Confirmed speakers as of October 1 include Frank Ingrassia, Goldman Sachs & Company, New York; Richard Strutz, President, National Bank of Alaska; Jeff Getter, Dames & Moore-London, John Morgan, BP Exploration (Alaska) Inc.; Ron Duncan, GCI; Jerry DeFrancisco, AT&T Alascom; Robert Loescher, Sealaska Corporation; Tim Geiken, UPS; Tom Dow, Princess Tours; John Olson, AIDEA; Ken Vassar, Wohlforth, Argetsinger, Johnson & Brecht; former Governor Walter J. Hickel; Robert Beaver, Sealand Services; Unalaska Mayor Frank Kelty; Michael Gough, CATO Institute; Commissioner Michele Brown, Alaska Department of Environmental Conservation; Dr. Les Williams, Foster Wheeler Environmental Corporation; Frank Vertucci, ENSR Corporation; Randy Smith, EPA; Scott Thompson, Alaska Power Systems, John Key, Cominco Alaska, Inc., and Harry Noah, the Noah Group.

Invited is Mark Suwyn, Louisiana Pacific Corporation.

RDC members and others are encouraged to register for the conference before November 1 for an early-bird registration rate of \$150. Special sponsorships rates, which include registrations, are also available. Call RDC for additional information at 276-0700.

RDC asks for new TLMP revision

Because of serious flaws in the Tongass Land Management Plan (TLMP) revision, RDC has joined the Alaska Forest Association and other organizations throughout Alaska in asking the Forest Service to rewrite the controversial plan.

In comments to the federal agency in August, RDC asked the Forest Service to withdraw the revised TLMP, correct the miscalculations in the timber harvest estimates and issue a new revision for public comment. Inaccuracies in the timber harvest numbers have made it difficult for RDC, other organizations and individuals to comment knowledgeably on the plan.

Alternatively, RDC suggested the Forest Service sign the February 1993 Record of Decision. That plan represents a much more balanced management approach relative to the whole Tongass. It clearly reflects better science than the current draft.

Of the alternatives in the current draft, Alternative 2 was the most balanced. Alternative 2 proposes a level of timber harvesting consistent with historical use of the Tongass. Alternative 2 would precipitate no viability crisis for any Tongass species and would provide for a sustainable yield and multiple use for all forest users.

The Preferred Alternative, which RDC strongly opposes, restricts timber harvest more than is necessary to protect the environment. The Preferred Alternative would place additional lands off limits to harvesting, further upsetting the balance that presently exists between preservation and development. The TLMP Revision, as proposed, will wipe out many of the compromises and understandings reached under Tongass Timber Reform Act.



Thoughts from the President by Scott Thorson

Murkowski's bill seeks needed clarifications to ANILCA

As usual there is no shortage of critical issues facing Alaska's basic industries these days. There are many Outsiders who wish to stop Alaska's economy in its tracks or wish to restrict access to Alaska's land base. We need to work together as Alaskans to overcome these formidable challenges.

One of the more pressing current issues facing Alaska is ANILCA and some of the unreasonable restrictions that piece of legislation has placed on Alaskans. Senator Murkowski is working on legislation to address some of the problems caused by ANILCA. Problems have developed since the passage of the Act because well-intentioned federal managers are forced to make difficult decisions interpreting broad or ambiguous language. Murkowski's proposal seeks to clarify parts of the Act to guarantee the original intent of Congress is carried out.

When ANILCA was passed, there were assurances made in the bill, through what is commonly known as the "no more" clause, that there would be no additional land withdrawn into restricted classifications. The Clinton

administration has shown that it does not intend to honor that part of the law, as evidenced by its attempt to create more big "W" Wilderness in ANWR. Senator Murkowski's proposal includes a provision to address this problem.

Access is another problem. There are many ways that ANILCA limits or completely eliminates access by Alaskans to traditional hunting grounds, fishing resources and other areas. Because access is so difficult in Alaska, large tracts of land can be placed completely off limits by not allowing access by boats, airplanes or snowmachines. By closing one stretch of river, federal land managers can cut off hunting for entire regions no recourse.

Another big problem lies in Title XI access provisions. Title XI applies to transportation and utility systems in and across conservation units and establishes guidelines and procedures for submitting and processing applications for those transportation and utility systems. In 1983, the Department of Interior proposed comprehensive regulations to implement Title XI. Final regulations were challenged by Trustees

"Your support is needed for this legislation. There are powerful Outside interests that will be fighting for more restrictive land management policies."

for Alaska in 1987, and a number of parties, including RDC, intervened in the case. The Department today has released a proposed rule to revise and simplify the regulations. Murkowski's proposal seeks to provide additional remedies to the access problems.

Hunters, trappers, sport fishers and recreationalists are not assured that they can continue to enjoy Alaska's wild lands. Under ANILCA, decisions on what can be done and what must not be done in Alaska's outdoors will be made in Washington, D.C. Most Alaskans live here to experience the freedom of being in the wilderness and ANILCA is a threat to that lifestyle.

For more information on the specifics of the bill, or if you want to add your two cents worth, please contact Murkowski's office and drop a note to Congressional leaders and the President to voice your strong support.

RDC briefed on Tongass transfer bill

Members of RDC's board of directors were briefed recently on legislation introduced by Congressman Don Young that would allow the State of Alaska to take control of the Tongass National Forest.

Duane Gibson of the House Natural Resources Committee of which Young is chair, noted that in two public hearings held so far on the legislation, the issue has come down to a philo-

sophical debate on government from afar, the ability of local communities to manage their resources and whether the promise of statehood for Alaska has been achieved.

Young says he introduced the bill because the Forest Service has mismanaged the forest and is largely responsible for the 40 percent reduction in the region's timber industry employment. Young noted that decisions over

logging have shifted from local decision-makers to Washington, D.C., politicians pandering to powerful environmental lobbies.

"My bill unlocks the Tongass from its federal shackles," Young said. "It gives Alaskans freedom. It gives us control."

Gibson said Young will continue to refine his bill and more hearings will be held next year.

Fate of timber industry, thousands of jobs hang in the balance

(Continued from page 1)

The legislation would also have extended the restored contract by 15 years. Under pressure from the White House, the KPC provision was dropped from the Omnibus Parks Bill passed in the final days of the 104th Congress, just adjourned.

Failing a legislative solution, the company actively sought a negotiated settlement with the administration. In a September 18 meeting with Agriculture Secretary Dan Glickman, the company proposed a plan that would close the pulp mill but retain enough timber to permit its two sawmills to continue operating. The response to that proposal came in a letter from Secretary Glickman dated October 3 in which he agreed to "begin discussions immediately so that we may resolve these issues, while providing strong and meaningful support for the people and communities of Southeast Alaska."

Suwyn indicated the company had already been in touch with the Department of Agriculture to begin negotiations, which he said needed to be concluded in the next 30-45 days. "Providing adequate timber supplies are made available at a reasonable price, KPC will keep the sawmills running," he said.

Speaking about the closure of the pulp mill, Suwyn said the company had no choice. "In addition to current operating losses of between \$5 and \$10 million a month, we were required to spend more than \$2 million a month to accomplish environmental and productivity upgrades," Suwyn said. "We simply could not afford these continuing losses and capital outlays in the face of the Clinton administration's opposition to any compromise that would allow the pulp mill to operate profitably."

The pulp mill closure will affect 500 KPC employees. The company expects to maintain a 1997 work force of about 400 to operate sawmills and harvesting operations unless they, too, are forced to shut down by the administration.

The opposition in Congress against the contract extension was led by (R) Rep. Sherwood Boehlert, whose state of New York cuts more than 1 billion board feet of timber annually to feed 34 operating pulp mills and 231 sawmills. In comparison, Alaska has one pulp mill that is on the verge of closure and 30 small sawmills. Approximately 250 million board feet of timber was harvested from the Tongass in 1995.

Suwyn said that Louisiana-Pacific and KPC would continue to press claims against the Forest Service for breach of contract. Some of these issues are currently the subject of suits filed in the U.S. Court of Federal Claims which seek in excess of \$200 million. L-P expects to file substantial additional claims in the future.

Murkowski said he hopes the government's negotiations with the company are productive. He pledged to aggressively monitor the process.

"We have fought long and hard on this issue," Murkowski pointed out. "For the working men and women of Ketchikan and Prince of Wales Island, this agreement offers a ray of hope that they will have jobs and the basis for a year-round economy will remain in Southeast Alaska."

Despite the agreement, Governor Tony Knowles expressed concerns about families and businesses affected by the impending transition. "Even if the sawmills remain in operation, a decision by LP to close their pulp mill will put hundreds of Ketchikan residents out of work," Knowles said. "This remains a major concern for my administration. While we will work to create a viable, sustainable timber industry as part of Ketchikan's future, we won't forget those who are most affected by this transition."

The existing long-term contract, which expires in 2004, obligates the company to operate a pulp mill, but the closure of the pulp plant would almost certainly trigger cancellation of the contract. In 1994, the Forest Service canceled a similar contract held by Alaska Pulp Corporation after that company closed its Sitka pulp mill.

KPC had been seeking the 15-year extension to its long-term contract to amortize \$200 million in environmental and safety upgrades required at its pulp mill.

KPC provides 30% of Ketchikan's payroll and more than 1,000 year-round, high-wage jobs in the region. Its demise would devastate the region's timber industry which employs about 2,000 people. The pulp mill is critical to the entire timber industry because it takes low-quality logs, harvested with high-quality timber, and does value-added manufacturing to make a pulp product used in a variety of consumer products.

Although high-quality timber can be used to make lumber and other high-end wood products, the pulp mill is needed for the low-end wood. Without the pulp mill, harvesting will be limited to selective logging of only the high-end trees with a lot of timber left behind that might otherwise have been harvested.

Environmentalists say the new accord signals the beginning of the end to the last long-term contract in the Tongass. They claim the contract promotes clear-cut logging, which they say is a threat to wildlife, fish and tourism. But with two-thirds of the forested lands in the Tongass closed to logging, fish, wildlife and tourism thrive.

House Speaker Gail Phillips, an outspoken advocate for jobs and families, noted that President Clinton must understand that this issue is not just political fodder, but critical to the lives of many Alaskans. She explained that "no amount of relief can replace the dignity of having a job and supporting your family."

Update on Mining

Alaska's sleeping giant begins to awaken

Unlike Alaska's struggling timber industry, the state's mining sector is healthy and expanding with new discoveries, increased exploration budgets and more development. The Red Dog lead and zinc mine in Northwest Alaska is expanding, the Fort Knox gold mine near Fairbanks is pushing forward despite cost overruns and the Greens Creek silver mine near Juneau is at least three months ahead of schedule in initial start-up.

The total value of production and the sum of exploration and development expenditures in 1995 totaled \$719 million, up 23 percent from the \$583.5 million total for 1994. Exploration expenditures in 1995 grew 10 percent to \$34 million and mineral development levels jumped from \$44.9 million in 1994 to \$148 million in 1995, an increase of 234 percent. Mill expansion work at Red Dog and construction at the Fort Knox and Nixon Fork gold mines accounted for 86 percent of the total 1995 statewide development expenditures.

Gross value of Alaska's mineral production was \$537 million, up 6 percent from 1994. Two factors were responsible for much of the production increase, a 15 percent increase in lead and zinc concentrates from the giant Red Dog zinc-lead-silver mine and a record 1,640,000 tons of coal production from Usibelli Coal mine.

The mining industry provided an estimated 3,406 direct, full-time jobs in 1995, an increase of 323 from the previous year. Most of the added jobs were attributed to mill expansion activities at Red Dog, Nixon Fork and Fort Knox.

Major exploration projects occurred throughout the Northwest Arctic, the Seward Peninsula, the Kuskokwim region, Southeast Alaska and several places in the Fairbanks area this summer. This high level of exploration

"Years of work are culminating in new mines that create new jobs and economic development."

Steve Borell

Alaska Miners Association

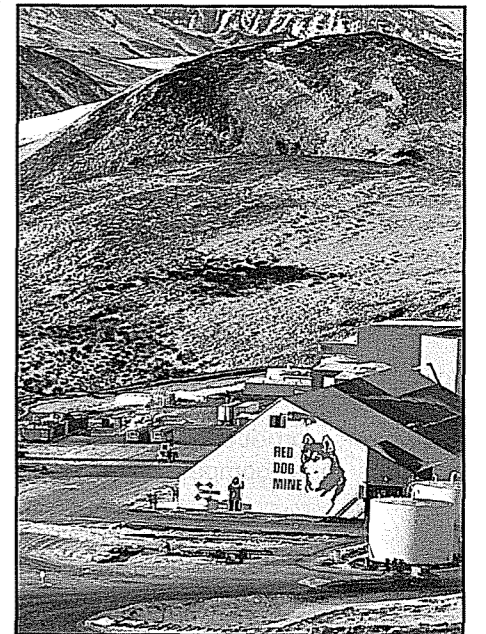
activity is a strong indication of the increased confidence the industry has for doing business in Alaska, noted Steve Borell, Executive Director of the Alaska Miners Association.

"Years of work are culminating in new mines that create new jobs and economic development," said Borell. "Over the past six years, the Legislature has made more than a dozen changes that have clarified laws, reduced unnecessary risk, and improved the general business climate for mining."

Borell credited the Alaska Congressional Delegation, the Knowles administration and the Legislature for seeing the need for diversification of the Alaska economy and taking the necessary steps to improve the business climate.

But mining companies investing hundreds of millions of dollars in Alaska warn that despite promising geology and the flurry of activity on big mining deposits, Alaska projects have been slow to show a profit because of enormous infrastructure and other development costs. All three of Alaska's major mines — Red Dog, Greens Creek and Fort Knox — have challenging problems to overcome, but thanks to the size and strength of the companies involved, those ventures are moving forward.

With an \$80 million expansion underway, Cominco is transforming Red Dog into the world's largest lead-zinc



With an \$80 million expansion underway, Cominco is transforming Red Dog into the world's largest lead-zinc mine. Red Dog is located in Northwest Alaska and is a major element in the region's economy.

mine. With higher production and lower unit costs, the company hopes to create a margin of profit at Red Dog, something it has been unable to do with the depressed zinc prices of the past several years.

The Greens Creek mine should be operating by the end of the year, according to Clint Nauman, mine manager for Kennecott Greens Creek Mining Company, which is currently in a start-up mode before full-time operation. The mine will process about 1,320 tons of ore per day and yield about 11 million ounces of silver per year, making it the largest single silver producer in the U.S.

Amax Gold, the developer for the Fort Knox, is looking at nearly a 50 percent increase in its original cost to bring the gold mine near Fairbanks into operation. The latest capital costs for the project are \$370 million. Much of the Fort Knox problem has to do with geotechnical problems with soils below tailings impoundment dams, requiring more excavation and construction.

The Jonesville underground coal mine near Sutton is expected to start selling its product this month, according to Nerox Power Systems Inc. The mine is expected to reach full production of 400,000 tons a year in 1997.