RESOURCE review

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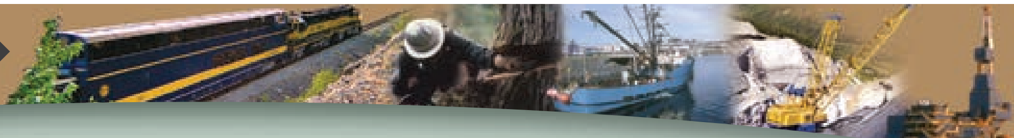


Oil industry struggles, but projects moving forward

Despite persistently low oil prices, there was good news announced at RDC's Alaska Resources Conference last month in Anchorage.

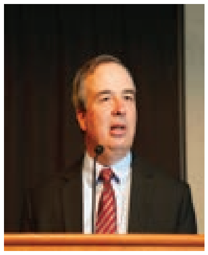
Joe Marushack, President of ConocoPhillips Alaska, announced his company and Anadarko will be moving forward with the Greater Mooses Tooth 1 development in the National Petroleum Reserve-Alaska. The field is expected to start up in 2018 and produce about 30,000 barrels per day.

ConocoPhillips' worldwide budget has been cut by about $5 billion in response to low oil prices, but Alaska investment has remained strong. The company has six drilling rigs operating on the North Slope, the most since the 1980s, with additional rigs expected in 2016.

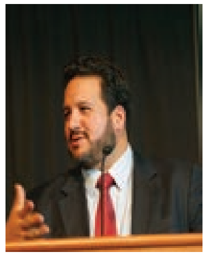
In total, the company has invested $3 billion in new projects with new production of about 50,000 barrels per day. While the company sanctioned the CD-5 project in 2012, its other projects were somewhat contingent on revisions to the state's oil production tax system, which occurred in 2013.

Marushack emphasized the importance of a stable investment climate, noting tax policies have an impact on investment decisions. While a rational discussion on the state's fiscal challenges is needed, he said oil companies cannot provide a solution, given low oil prices.

With regard to the Alaska LNG Project, Marushack urged Alaskans to take a long-term view and to stay the course. He said the four partners in the project, including the state, need to pull in the same



Joe Marushack



Damian Bilbao

Gina Dickerson (Photos by Judy Patrick)

direction. While the project is important to ConocoPhillips, Marushack said its huge $60 billion price tag raises the risks, adding it is necessary to move forward with a fiscal package for industry partners that makes sense.

Speaking on a global LNG market update, BP's Damian Bilbao, Director of Business Development Alaska LNG, said global LNG production is expected to increase 50 percent by 2018, resulting in a market that will favor LNG buyers over at least the early portion of the Alaska LNG development cycle.

Bilbao said prices have weakened on lower oil prices and weak Asian demand. "Successful projects will need to be cost

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Policy objectives hold keys to oil industry growth

The news is not all bad in Alaska's oil industry. While Shell and Statoil are pulling out of the Alaska and will not invest in the state in 2016, production has started in the National Petroleum Reserve-Alaska and Point Thomson will have first production by the first quarter of 2016.

Oil prices are low and forecasts show they are likely to stay down for a while. However, the Alaska LNG Project continues to move forward. Hilcorp is advancing the Liberty project and Caelus has an exciting exploration project planned at Smith Bay. Cook Inlet oil production has increased by 80 percent, and while Alaska has major permitting and access challenges, it has mega resources.

This was the 30,000-foot view on the current status of Alaska's oil industry from Kara Moriarty, President and Chief Executive Officer of the Alaska Oil and Gas Association, who spoke last month at the Resource Development Council's Alaska Resources Conference in Anchorage.

"I refuse to dwell on the gloom and doom, but the reality is unlike the last major downturn in the late 80s – production is no longer surging through the pipeline," said Moriarty. "We need more than just time and patience for the price to rebound and save us again."

Moriarty focused on three major policy objectives – competitiveness, stability, and predictability – as key to the continued success of not just Alaska's largest private sector industry, but for the future of Alaska. Moriarty noted Alaska still has great potential for oil and gas, but the 49th state is not the only place with major deposits. Moreover, she explained that

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LNG, oil tax credits, Point Thomson among issues discussed at RDC's Alaska Resources Conference

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competitive and flexible, and buyers will have multiple options for the next generation of new supply," Bilbao said. The keys to success of the Alaska LNG Project is competitive cost of supply, party alignment on solutions, and a reputation as a reliable future energy source, Bilbao added.

Speaking on the stability of Alaska's oil and gas tax system, Benjamin Johnson, President of BlueCrest Energy Inc., told the RDC conference that investment decisions for the development of the Cosmopolitan field in Cook Inlet were based on existing state tax laws, including the availability of tax credits for the development of the field.

"If those tax credits don't come in, that's going to create a severe problem," Johnson said. In the absence of the credits, Johnson said the company could be forced to stop field development. He said the credits have been critical to development of the field, which has the potential to produce up to 30 percent of the natural gas consumed in Southcentral Alaska. So far, BlueCrest has poured about $200 million into the project.

If state policy makers move too aggressively to cancel credits, companies moving toward new production will be forced to hold back, hurting future state revenue from royalties and taxes, Johnson warned. In addition, he said gas production in the region could fall again to low levels within the next five years. He urged the state to move carefully so companies on the edge of success can meet preexisting commitments

Casey Sullivan and Benjamin Johnson defend oil tax credits. (Photo by Judy Patrick)

and increase oil and gas production, which will benefit the state, local utilities, and consumers.

Johnson said the state should view tax credits as investments that will generate future state revenues. For example, Cosmopolitan should ultimately pay $362 million in royalties to the state at $55 oil, compared with $120 million in credits – a 300 percent benefit-to-cost ratio.

Johnson noted costs to drill in Alaska are three to five times higher than the Lower 48, but tax credits swung the economic balance in Alaska's favor, enabling his company to drill in Cook Inlet. "We proved up a lot more oil at Cosmopolitan than was previously known and discovered substantial new gas," Johnson said.

Casey Sullivan, Director of State Public Affairs for Caelus Energy Alaska, said his company decided to invest in North Slope oil development after the passage of Senate Bill 21, the law which reformed Alaska's oil production tax system.

Sullivan said Caelus' latest two-well exploration drilling project in Smith Bay would not be happening without oil tax credits. "This project would not be possible without the partnership of the State of Alaska through its oil tax credit program," Sullivan said. Smith Bay could potentially be a one billion barrel field, he noted.

Sullivan cautioned that financial lenders and analysts are closely monitoring Alaska's oil industry and the credits program. "When our government sneezes about eliminating credits and making big changes to the taxes, that cold spreads all the way to Manhattan and beyond," he said.

Gina Dickerson, Project Manager for ExxonMobil's Point Thomson project, told conference attendees the company will ultimately invest $4 billion into the field, which will become the foundation of future North Slope gas development.

"Point Thomson marks a new era," Dickerson said. "It is the first time ExxonMobil will operate a large gas field on the North Slope and it's the next step in commercializing Alaska's natural gas resources on the Slope. Point Thomson will provide 25 percent of the state's known gas reserves, plus millions of barrels of associate condensate."

Point Thomson is well positioned to commence first oil in early 2016.

"It's an investment toward commercialization of Alaska's natural gas resources and it's an anchor project of Alaska LNG," Dickerson said.

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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.

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Message from the Executive Director – Marleanna Hall

Budgeting for Alaska's future

This is the time of year when we count our blessings; blessings such as living in a state with an abundance of natural resources that allows for jobs and opportunities throughout Alaska. Here at RDC we want to do our part to ensure we can count on this blessing for many years to come, so we've taken a hard look at our budget and made some changes that include efficiencies and reductions for 2016.

While the low price of oil has affected some of our members causing large layoffs and budget cuts, some members are seeing less of an impact as a result of the increase in investment after the passage of SB 21 almost two years ago. And equally important, many communities are also seeing less of an impact.

What can we do to ensure fewer companies and communities are affected in the coming months and potentially years? We can only spend what we have, and we don't have to spend it all. As Governor Bill Walker has said time and again, "We don't have a wealth problem. We have a cash-flow problem."

We have huge savings as a state, but we also have the propensity to spend more than we need to. It's not the role of RDC to tell policymakers where to make cuts, but instead, to offer support for those willing to make the difficult decisions. It is our responsibility to make sure that our state's resources are developed responsibly so that all Alaskans can continue to share in the wealth of this great state. We can encourage our state legislators to take action now – before we are forced to take extreme measures later, during a full-blown statewide recession.

What we are doing, what our members are doing, what businesses and households across Alaska are doing to cut spending should, and must be done at the state level as well. The upcoming legislative session will focus largely on the unsustainable state budget, and we promise our support to policy makers who make leadership decisions and work toward a sustainable fiscal plan.

"What we are doing, what our members are doing, what businesses and households across Alaska are doing to cut spending should, and must be done at the state level."

What is important to our members is important to RDC. We wouldn't exist without the support of our members and sponsors. Know that your membership dollars will be used responsibly and to the best of our ability to promote our mission. As we begin the New Year, we welcome your input and feedback and encourage you to get your friends, neighbors, and family involved in the discussion.

Please visit us online at akrdc.org for updates and information on the upcoming fiscal debates in Juneau next session. Watch your email for opportunities to get involved and make a difference. We'll keep our members up-to-date on our work and together we will help lawmakers arrive at a long-range, sustainable fiscal plan.

Mining industry faces major challenges in Alaska

"When I gave this presentation in 2013, I said things were grim. Metal prices were down, energy and operating costs were up," said Karen Matthias, RDC board member and Managing Consultant for the Council of Alaska Producers. Today, metal prices are still down, and the situation is still grim, Matthias told the Alaska Resources Conference in Anchorage last month.

"What does that mean for Alaska? We have world-class producing mines, weathering the downturn, still proving good jobs, and doing so with the highest environmental standards," said Matthias.

Mines in Alaska are producing more, but at lower prices, which cuts in to profit margins, leaving less taxable income, leading to a decrease in state revenue. In addition, it is difficult for exploration companies to compete for investment – resulting in less money coming to Alaska, which saw a 45% decrease in exploration last year.

Alaska has world-class mineral potential, with the Fraser Institute consistently rating Alaska in the top five for pure mineral potential. "Where we have slipped recently is policy perception, and that is something that can be changed so Alaska is seen as a great place to invest," highlighted Matthias. According to the Fraser Institute Survey for investment attractiveness, Alaska fell from 5th best to 10th.

Mining in Alaska Passes the Test:

- ☑ Paying for itself
- ☑ Achieving strict environmental and safety standards
- ☑ Benefitting Alaskans
- ☑ Providing economic diversity

"There is plenty to do at the federal level," to improve investment for future projects," Matthias noted. "The cost and deterrent of federal permitting delays . . . the longer the wait, the more the investment value was reduced, sometimes to the point where a project becomes non-viable."

Matthias said there is also room for improvement at the state level. "It is fundamental for the state to have a rigorous permitting process, and in these difficult fiscal times, the state needs to find efficiencies.

"It is vital, however, for regulators to have the resources to do their work, so the private sector can move projects forward, create new jobs, and strengthen the economy, whether it is in mining or any other industry that depends on permitting," added Matthias. "All of our industries need to keep working together, I want to see all of us prosper. If we can permit more mines, we can provide more jobs, more state revenue, royalties to Native corporations, and support for communities."

AOGA outlines key policy objectives for industry

(Continued from page 1)
while Alaska has one-third of the nation's reserves, costs are extremely high.

Citing Department of Revenue estimates, Moriarty said transportation, operating, and capital expenses on the North Slope are about $50 per barrel. And that estimate does not include any royalties or local, state, and federal taxes. With oil prices recently slipping below $40 a barrel, Moriarty said it is a tough time financially for the industry.

Given Alaska is no longer a leader in domestic oil production, now accounting for about five percent of production, Moriarty pointed out the number of places to invest remains about the same, but the amount of investment dollars are much less. "Alaska should be doing everything in its power, especially when we have less than favorable federal policies, to make Alaska the most competitive place to do business," she said. "What are we doing to make us more competitive? I would argue we are doing just the opposite."

Missing in the conversation of declining oil policies and declining state budgets is the focus on getting more oil in the pipeline, Moriarty said. "The focus has shifted away from more oil in the pipeline to more money in the state treasury."

AOGA President Kara Moriarty addresses key policy issues impacting investment.
(Photo by Judy Patrick)

With the state budget directly tied to oil price and production, and the state facing huge shortfalls this year, leaders across Alaska have already begun serious discussions about where and how to cut the budget and generate more revenue, Moriarty said. Some have already demanded more from the industry, which underscores Moriarty's second policy objective – stability.

"At a time of low prices, reduced access to resource-rich areas, and increased scrutiny from all sides, we desperately need more from our leaders than the tired and counterproductive strategy of, 'before we do anything else, just raise the taxes on the oil and gas industry,'" Moriarty said.

The AOGA President said changing the rules every time the price of oil goes up or down creates a haphazard, unfavorable business environment. "You wouldn't take out a mortgage whose terms may change every time the stock market goes up or down, so how can we expect the oil industry to do the same?"

Companies making billion dollar decisions require Moriarty's third policy objective – predictability, the need to be able to plan for the long-term. "Confidence that the rules today will be the rules tomorrow is critical to companies analyzing where to spend their increasingly limited investment dollars," Moriarty said.

Some companies who made major investment decisions had the rug pulled out from them when the veto of tax credits came this last June, Moriarty noted. "For those companies who utilize refundable credits, no longer was Alaska stable and predictable," she said. "Some companies are not comfortable making investment decisions right now until they know with confidence what the tax system is going to be."

Alaskans testify at ANILCA hearing in Washington, D.C.

U.S. Senator Lisa Murkowski called for the federal government to live up to the promises made in the Alaska National Interest Lands Conservation Act (ANILCA), which was signed into law 35 years ago.

"The 35th anniversary of ANILCA is an opportunity to examine how the law has – and has not – worked for Alaskans and all Americans. This is also a perfect moment to reassert that the law must be implemented as it was written, not as federal agencies wish it were written. And that means the federal government must honor rural preference, protect subsistence rights, provide Alaskans with access to our lands, and allow us to responsibly develop our resources," said Murkowski, chairman of the Senate Energy and Natural Resources Committee.

ANILCA 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. Overall, the act designated roughly 57 million acres of Alaska as formal wilderness.

In exchange for withdrawing so much of Alaska, ANILCA included a lot of promises with respect to Alaska's rights, to allow residents access to inholdings, and to provide continued use of federal lands for recreation, hunting, and the pursuit of economic prosperity. Unfortunately, Murkowski said, those promises have not been kept.

Murkowski highlighted ANILCA's 'no more' clause, which prohibits the president from ever again using the Antiquities Act to create new monuments in Alaska without congressional approval, as just one of the broken promises.

In his testimony, Governor Walker provided the state's perspective on ANILCA.

"More than 40 million more acres of Alaska have been withdrawn or proposed for protection over the past seven years, including half of our National Petroleum Reserve and almost all of ANWR, clearly undercutting ANILCA's 'no more' clause. Nearly 15 million acres have been removed from the timber base in our national forests, contributing to the demise of an industry that once employed thousands in Southeast," Murkowski said. "It's clear that the federal

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Hearing sheds light on federal abuses to ANILCA

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government, in ways large and small, is trampling state sovereignty over state lands and private sovereignty over private lands in Alaska."

Murkowski convened an oversight hearing on ANILCA in early December to receive input from Alaskans and others with an interest in how the law has and has not worked. Witnesses underscored the federal government's lack of balance in the law's implementation and said the two greatest reforms were language guaranteeing no more land withdraws and access to existing conservation units.

Murkowski asked each witness at the hearing what improvements Congress could enact that would make ANILCA work better for the people who actually live there. The response she received from Alaska state Senator John Coghill, Governor Bill Walker, and other witnesses was an end to federal land withdraws and a guarantee of access to existing conservation units.

"Onshore, there are potentially billions of barrels of oil that are within less than 50 miles of an existing oil pipeline that is three-quarters empty," Walker said, expressing frustration that the federal government has blocked access to a small fraction of ANWR that was specifically set aside under ANILCA to be evaluated for resource development.

Delegation, RDC file briefs in Sturgeon ANILCA case

The three members of Alaska's congressional delegation, the State of Alaska, Native corporations, and several Alaska trade associations, including RDC, have filed amicus briefs with the U.S. Supreme Court in support of Alaskan John Sturgeon, who is suing the National Park Service over being forced off the Nation River for using a hovercraft to hunt moose, something he had been doing for decades.

The Park Service claimed it controlled that stretch of the Nation River because it is part of the Yukon-Charley Rivers National Preserve. The State of Alaska claims regulatory jurisdiction under the Statehood Act and the Alaska National Interest Lands Conservation Act (ANILCA).

After the U.S. Court of Appeals for the Ninth Circuit sided with the federal government, giving the Park Service expansive rights over state and Native land, Sturgeon sought review by the Supreme Court. The high court announced in October that it would hear the case.

At issue is who, under ANILCA, controls state and Native property located within the outer boundaries of Conservation System Units (CSU). As the briefs indicate, only the State of Alaska and Alaska Native Corporations are empowered to make land use decisions on these non-federal lands.

"As Alaska's Attorney General, I worked to rescind the National Park Service regulations that are at issue in this case and I am pleased that the Supreme Court will be hearing it," U.S. Senator Dan Sullivan said. "This case is about who should have the right to make land management decisions over state and Native lands – the owners of the land or the National Park Service."

RDC Board member John Sturgeon on his annual moose hunt.

U.S. Senator Lisa Murkowski said the federal government's action also undercuts the 1971 Alaska Native Claims Settlement Act (ANCSA). "If not overturned, our state and Alaska Native corporations face a real threat of having to ask the federal government for permission to use the lands conveyed to them," Murkowski added.

"The intent of ANILCA was always clear in the minds of Congress and its authors," said Congressman Don Young. "Mo Udall, Scoop Jackson, Ted Stevens and I all understood the terms of this legislation, which ensured the protection of Alaska's sovereignty and closed the door to future government encroachment," Young said. "By ignoring the law and dismissing the intent of Congress, the federal government has once again attempted to expand its authority beyond anything ever imagined."

In its brief to the court, RDC pointed out that the success of Alaska's resource industries, the bedrock of Alaska's economy, is dependent on a series of promises made by Congress that provide access to natural resources. These promises started with the Alaska Statehood Act, continued with ANCSA, and culminated with ANILCA.

"These acts collectively allow the State of Alaska and Native corporations to identify, select, and receive lands that provide the resources necessary to build the state's economy and serve the interests of Alaska's people," the RDC brief explained.

The brief pointed out that Section 103(c) ensures that any state, Native corporation or other private lands, including lands within CSUs, will not be treated as part of those units and will not be subject to the regulations applicable solely to public lands within those units. The brief said that the regulations at issue in this case could prohibit economic development of state and private lands, rendering the protection granted under Section 103(c) meaningless,

"The Ninth Circuit's decision is contrary to the plain language of ANILCA, ignores the context under which Section 103(c) was enacted, undermines the congressional promises of ANILCA, and will have wide ranging consequences for business interests that depend on development and use of inholdings in Alaska," the RDC brief stated.

Good news and bad news in fisheries overview

As with most other resource development industries in Alaska, there was good news and bad news to report for the 2015 overview of Alaska's fisheries.

Ricky Gease, RDC board member and Executive Director of the Kenai River Sportfishing Association, provided both commercial and sportfishing updates at this year's Alaska Resources Conference.

"Alaska is the world's model for sustainable fisheries management," Gease explained. Unlike any other regulated community in the state, the fishing industry is invited to the table where regulatory decisions are made, and their input is carefully weighed and incorporated into the overall management of the fisheries. Gease noted this lies in stark contrast to the other industries RDC represents, wherein many cases industry frequently is forced on the sideline while agencies create regulations.

The numbers coming out of the commercial fishing industry in Alaska are impressive: over 80,000 seasonal and full time employees, nearly six billion pounds of seafood harvested in 2014, first wholesale value of $4.3 billion, 6,500 vessels operating in Alaska's waters and over 120 processing facilities that span the state. With these numbers, it should come as no surprise that over half of the seafood production in the Unites States comes from Alaska.

Photo by Judy Patrick

As for sportfishing, Gease pointed out

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Some room for optimism in Alaska's forest industry

There is room for optimism in Alaska's struggling forest products industry, according to John Sturgeon, President of Koncor Forest Products.

"We have an industry that is sustainable and renewable," Sturgeon explained in a presentation to RDC's Alaska's Resources Conference last month. "If we set aside 10 percent of the Tongass National Forest, we can harvest 400 to 500 million board feet per year on a sustainable basis," Sturgeon said. "It takes 100 years to grow a tree in Alaska. We can cut one-hundredth in a year and we can do that forever."

Sturgeon said the industry has the potential to be a wealth creator and it can and should be a part of Alaska's fiscal future.

Last year 25 percent of Alaska's timber harvest came from the Tongass, state lands accounted for 25 percent and private lands comprised 50 percent of the harvest.

Sturgeon said the industry outlook in Southeast Alaska improved this year after Congress passed the Sealaska lands bill. Sealaska received 70,000 acres of land to complete its selections under the Alaska Native Claims Settlement Act and this spring the corporation launched sustainable logging on its newly-acquired lands.

Moreover, Sturgeon noted the Viking Sawmill, the last remaining medium-size mill in Southeast Alaska, now has three years of timber under contract, but the timber sale that provides the mill's supply is at risk from a lawsuit. Sturgeon noted every sale on the Tongass is litigated.

Sturgeon praised the State of Alaska's forestry program. Numerous state timber sales in the Fairbanks area are supplying a pellet factory at North Pole and firewood for local residents. Other sales across the state have taken place for various uses, including milled house logs and wood chips for heat. Several large sales have been proposed in Southeast Alaska but are being challenged.

Sturgeon applauded Governor Bill Walker's endorsement of legislation sponsored by Congressman Don Young to transfer 2 million acres of the Tongass to the state for timber harvests and multiple uses.

Sturgeon noted the U.S. Forest Service is determined to end old-growth logging in the Tongass and transition to young-growth stands. He warned the stands are not mature and are inadequate to support the industry.

"The feds are in a rush to lock in the transition land management plan before President Obama leaves office," Sturgeon said.

Sturgeon cautioned other industry leaders in the room, expressing hope they will learn from what has happened to the forest products industry over the past 20 years. "At one time we had 4,000 well-paying jobs in Alaska," he said. "Those for the most part are gone. We are at ten percent of what we use to be. Some of the signs we saw in the timber industry I'm starting to see in other industries. The timber industry didn't go away in just one day. It was a death by a thousand cuts."

Sturgeon said the real endangered species in Alaska is the logger. "There are only about 200 of us left in the Alaska wilds. However, we are still here and we have the ability to come back. The growth potential for the forest products industry is still here. We have a lot of trees and the markets are still here."

Tourism is a cautionary bright spot in Alaska

Much of the industry updates were full of sobering information, but tourism in Alaska continues to be a healthy and growing industry, with a steady increase in the number of visitors to the state over the last several seasons.

Scott Habberstad, RDC board member and Director of Sales and Community Marketing for Alaska Airlines, provided the tourism industry update at this year's Alaska Resources Conference. Habberstad pointed out that the cruise industry delivers the most visitors to Alaska each summer, and early projections for 2016 indicate Alaska will see more than one million cruise passengers pass through the state, a number that has only been reached three times before. "With increased cruise capacity comes increased airline capacity," explained Habberstad, noting Alaska enjoyed a 10.2% increase in independent travel over the last year.

The low cost of fuel is largely responsible

Photo by Judy Patrick


Photo by Frank Flavin

for the uptick in visitors, which in turn means more jobs and revenue paid to the state. A total of 1.9 million visitors traveled to Alaska this year, generating $1.8 billion in spending, accounting for one in eleven jobs, and producing $178 million in taxes and fees to the state's general fund.

Linda Springmann, Vice President, Deployment and Tour Marketing, Holland America Line, explained during her keynote address during the second day luncheon that while the increased cruise passengers to Alaska is good, the global competition remains fierce. The cruise industry is growing, but Alaska's share of the pie is not growing with it. Alaska serves only 4.5% of the cruise market, down from 6% several years ago, with the biggest markets being the Caribbean and the Mediterranean. Springmann noted that the Asia market is expected to grow by 20% in the next year.

Springmann discussed the costs of doing business, specifically in Alaska: "Neither we, nor RDC, nor the government have any control over the cost of steel to build a ship, the value of various currencies, the price of fuel or the weather. But we and the government do have control over trying to ensure the cost structure for our operations remain competitive. We hope our partners in both state and local government discuss our costs as much as we do, and work with us to help keep them down and keep Alaska competitive in the global marketplace."

Guest Opinion – *U.S. Senator Lisa Murkowski*

New mitigation policy bad news for Alaska

President Obama recently released a policy memorandum establishing new requirements for the federal agencies that oversee energy and other resource development. This is not a regulation that went through a process or a law passed by Congress – it is purely an executive action that all Alaskans should be wary of.

The memorandum focuses on mitigation and requires federal agencies to establish "a net benefit goal or, at a minimum, a no net loss goal for natural resources the agency manages that are important, scarce, or sensitive." The administration insists this new standard is designed to "accelerate conservation efforts," but it could easily become the President's most effective tool yet to drive investment away from Alaska.

The "no-net loss" standard has been the foundation of national wetlands mitigation policy for more than 25 years. As developers, municipalities, tribes, and state agencies know, the cost of "mitigating" development in wetlands has only become more expensive, if not outright impossible under it.

Now, the President's decision to expand the "no net loss" policy takes a system that is obstructing development in Alaska and extends it to all development decisions made by the Departments of Defense, Interior, and Agriculture, the EPA, and the National Oceanic and Atmospheric Administration (NOAA). By adding a directive to achieve a "net benefit goal," the President has clearly decided not to fix this broken process, but to replicate it and put it on steroids.

As if that isn't enough, the memorandum goes on to insist that some resources are of such "irreplaceable character" that minimization and compensation measures may not be adequate or appropriate, and therefore agencies should simply avoid impacts altogether. This could quickly become yet another tool to halt development – and I have deep misgivings about how it would be used in our state.

The presidential memorandum is not an isolated case, but part and parcel of a broader agenda. The administration is making it even harder to mitigate wetlands development, right as it pushes a new regulation – the "Waters of the United States" or "WOTUS" rule – that could dramatically expand the amount of acreage in Alaska that is considered to be wetlands.

Add it all up, and this new policy has the potential to significantly crimp economic development in Alaska. And this is not just about oil or gas or mineral development. Even proponents seeking to build a renewable project, fish processing plant, road, school, or anything else that requires an authorization from any one of the agencies may now have to make multiple mitigation payments just to receive their permits.

The recent experience of ConocoPhillips should serve as a warning. The company invested millions into the planning of the first field in our National Petroleum Reserve- Alaska (NPR-A), only to be held up by the Bureau of Land Management (BLM), which demanded $8 million in mitigation payments in exchange for the permit needed to begin development. BLM is now using the first $1 million to design a regional mitigation strategy that will govern how the other $7 million will be spent and what will be required from future projects. This payment was in addition to the mitigation funds that flow through the NPR-A Impact Mitigation Grant Program from any development.

Mitigation in Alaska has too often meant locking up state, private, and Native lands. Every time a conservation easement is issued on state or Native land to "offset" development elsewhere, the federal government is taking the land that was set aside to ensure Alaskans' future. The Obama Administration insists its new memorandum will "encourage" public-private partnerships that will pay for conservation. But given that these are requirements to receive a permit, the word "extortion" may ultimately seem more appropriate.

Instead of a forced public-private partnership for conservation in Alaska, we need a federal government committed to fulfilling its responsibilities. For example, I secured $50 million for the Interior Department to clean up abandoned legacy wells in our state, but the agency still refuses to make that a priority in its budget request and has instead sought to garnish state funds. So I will also be watching closely to ensure that this new memorandum is not used as an excuse for the administration to try to take funds from new projects in Alaska in order to remediate messes it has caused.

The new presidential memorandum has largely flown under the radar so far, but I encourage you to review it closely, and to join me in doing all that we can to resist and ultimately reverse its wrongheaded policy.

Editor's Note: The President's memorandum on mitigating impacts of natural resources from development can be found at whitehouse.gov.

Seas are choppy for Alaska's fishing industry

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that it is a $1.7 billion industry in Alaska. When combined with commercial fishing, it represents 10% of Alaska's gross domestic product.

The seas are not perfectly calm though, as a number of economic and regulatory issues that have potential long-term implications are coming to a head. The strong dollar has created a difficult sales market worldwide and the abundance of some stocks has created large inventories, forcing downward price pressure. By-catch continues to be a topic of debate, and illegal, unreported, and unregulated (IUU) fishing taking place outside of Alaska's waters negatively impacts the value of Alaska's fisheries. In addition to these challenges, the scientifically "fuzzy" climate based modeling for Endangered Species Act listings and the critical habitat associated with the listings continues to be of grave concern to the industry, as the data is not sufficient.

On the sportfishing side, the ability for the public to access public lands is becoming increasingly more difficult, as the National Park Service and other agencies are locking up the lands under the auspice of 'conservation.' The sportfishing industry is working towards changes to the Magnuson-Stevens Act, with the intent of designing regulations that recognize difference between the two fishing sectors.

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From the President – Ralph Samuels

What if your constituents are wrong? Tread carefully

"Because you have such access to information, you may find yourself in a situation where you know way more than your constituents on an issue, and you may find out they are wrong. What do you do in that instance? Tread very carefully."

The above exchange took place a couple of years ago between an elected official and me during a panel discussion. While sounding lighthearted, the problem is far more real than elected officials would like to admit.

There is a fine line between showing leadership and voting against what your constituents feel on a given issue. After all, you are there to represent their feelings on issues, and going against their wishes does not represent their values.

But what if they are wrong? What if you know it?

In the private sector, it is much cleaner. While some groups of employees might disagree with management decisions, the ultimate employer, the shareholders, decide whether or not the decisions made by management are good. They have tools such as dividends or share value to compare to the risk they took with their investment. Neither shareholders nor employees have to worry about hundreds of different subjects, from abortion to road financing.

In the public arena, every individual constituent has opinions on hundreds of issues. Most of them have no definite way to measure legislative or administrative success, so perception becomes far more important in the public sector than in the private sector.

So how does an elected official teach their constituents about an issue without coming across as condescending or aloof (both of which are bad qualities for an elected official)? The answer is to communicate….often.

For issues which do not make the front page of the paper, or lead story on the nightly news, the problem is far less pervasive. There are hundreds of issues before governments in Alaska. Everything from the nuances of building codes to the mundane details of local borough boundaries are discussed. While very important to some folks, they do not get much traction in the general public.

The two current issues which are getting traction in the press are the state budget, and the natural gas pipeline. Most Legislators and the administration officials know that the following statements are absolutely true:

• We cannot afford the level of government that we have, even if we get revenues from the Permanent Fund or broad based taxes. We must reduce the size of government. This isn't an ideological statement, it is a simple fact.

• We cannot cut enough to balance the budget. At the current price and production of oil, we would have to cut about two-thirds of general fund expenditures to balance through cuts alone.

• Natural Gas is a commodity. We need to ship it for the lowest cost, and sell it for the highest price we can. Anything that detracts from either one of these two items makes the pipeline more difficult to achieve.

So what is a Legislator to do if their constituents do not think that these three facts are true? What happens if they believe that we should simply impose an income tax, or simply cut the budget? What happens if they think that OUR gas is better than THEIR gas? What if we need to fundamentally change the pipeline planning? While Alaskans may argue with the three oil producers about tax rates, why would we ever argue with them on the details of the pipeline itself? This is what they do. They ship for low costs and sell for high prices, which is exactly what we want to do.

Communicating the facts on high profile issues is incumbent on all of us that pay attention to the economy of Alaska. Legislators and administrators need to do the same, but we do not have time to have to wait for the constituents to catch up to the knowledge base that the body politic has already accumulated. Leadership from both the public sector and the private sector is needed. RDC members can help by educating employees, customers and vendors about the urgency we feel about the future of the economy of our home. Time is of the essence, because we simply do not have time to tread very carefully.

RDC testifies in support of Alaska LNG Project

RDC testified in support of the Alaska LNG Project at a public hearing sponsored by the Federal Energy Regulatory Commission (FERC) in Anchorage last month. RDC emphasized the mega-project is absolutely vital to Alaska's future economy.

The project could create between 9,000 and 15,000 construction jobs and 1,000 permanent jobs. It is expected to generate billions of dollars in revenues annually to the State of Alaska. Providing a market for Alaska's natural gas will likely spur further exploration across the North Slope and Interior Alaska, increasing throughput in and extending the life of the trans-Alaska oil pipeline, as well as generating more private sector economic activity. The project will also make affordable natural gas available to Fairbanks and other communities.

RDC testified the gas pipeline will not have a negative impact on tourism or wildlife, nor the Cook Inlet beluga whales.

The overwhelming economic benefits of the Alaska LNG project must be given serious consideration and fully acknowledged in the upcoming environmental impact statement on the project, RDC said. Please see RDC's full comments on the project at akrdc.org.

Liberty project draws RDC's support

In a recent letter to the Bureau of Ocean Energy Management, RDC urged the federal agency to approve the proposed Development and Production Plan (DPP) for the Hilcorp's Liberty project and to fully consider the economic and other benefits of the project in a new environmental impact statement.

The Liberty field contains one of the largest potential sources of new light oil production on the North Slope, with an estimated 80-130 million barrels of recoverable oil. Hilcorp proposes to develop the field from an artificial gravel island, six miles offshore the North Slope in the Beaufort Sea. Please see action alert before January 26th at akrdc.org.

Groups oppose financial assurance rulemaking

RDC has joined the Alaska Miners Association, the Alliance, and other groups in opposing the Environmental Protection Agency's financial assurance rulemaking. In a joint letter, the groups said the rulemaking will produce a duplicative layer of regulations. Industries in Alaska that would be impacted by the rulemaking already demonstrate full compliance with existing financial assurance programs and regulations. See the letter at akrdc.org.

36th Annual Alaska Resources Conference attracts over 1,000

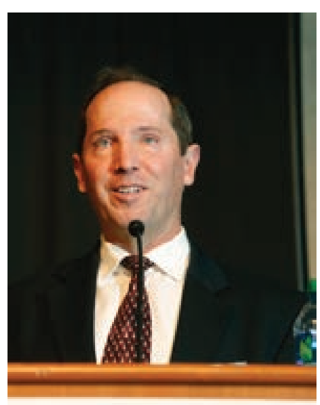
Despite the downturn in the energy sector,"the future still looks bright for Alaska," said Rex Rock, Sr., President of Arctic Slope Regional Corporation. At right, Wayne Westlake, President of NANA Regional Corporation, joined Rock to address, "It's Still North to the Future." Videos of all conference speakers are available at akrdc.org. (Photos by Judy Patrick)

Randall Luthi, President of the National Ocean Industries Association, encouraged Alaskans to pursue offshore oil development in the Arctic.

Conference attendees heard briefings from 30 speakers on a wide range of projects and public policy issues at the RDC event. More than 1,000 attended the forum, which included a sold-out trade show, featuring more than 100 exhibits. (Photo by Maria Talasz)

Bill Kovacs with the U.S. Chamber of Commerce addressed what Alaskans need to know about federal overreach.

Tom Collier, CEO of the Pebble Partnership, provided an update on an independent review of the EPA's actions against Pebble.



Cheryl Frasca focused on solutions to Alaska's budget crunch, along with Mayor Mike Navarre, Kenai Peninsula Borough. Mayor Navarre also participated in a panel on the Alaska LNG Project.

Eric Hill, General Manager of Kinross - Fort Knox Mine, participated in a panel on communities and mining.

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