Competing for capital: Alaska rates poor

Cominco Limited didn’t get to be the world’s largest zinc concentrate producer and third largest zinc metals producer without taking risks and exercising a lot of patience. The Canadian company has invested millions of dollars from the top of North America to the far reaches of South America in mineral exploration, mining, smelting and refining ventures.

For Cominco, big, calculated risks translate into big rewards, but in Alaska, the company has yet to reap those rewards from the huge capital risks it has incurred in developing the Red Dog Mine near Kotzebue, the largest and richest zinc ore body in the world.

Despite cost overruns of more than $34 million and depressed world metal prices, Red Dog will eventually turn the corner and bring Cominco a well-deserved return on its Alaska investment, according to John Key.

For Alaska, the results of the November election will likely mean a continuing stalemate on controversial resource development issues important to the state’s economy.

Although Republicans maintain a firm grip on both houses of Congress, President Bill Clinton’s return to the White House means environmentalists and their allies in Congress will retain the ability to block any attempt to open the Coastal Plain of the Arctic National Wildlife Refuge (ANWR) to oil and gas development. Moreover, federal land managers can be expected to further reduce the landbase reserved for logging in the Tongass National Forest.

This prognosis doesn’t sit well in a state where the economy is heavily dependent on resource development and where most residents tend to welcome industry and favor pro-development policies. More than two-thirds of Alaskans support oil and gas development in ANWR and over half support a reasonable balance between logging and other forest uses. Alaskans have re-elected a pro-development legislature and congressional delegation. And the state’s Governor has personally lobbied Clinton to open ANWR.

But with 60 percent of Alaska in federal ownership?
Morgan brings new meaning to infrastructure
(Continued from page 1)

and problems posed by remoteness.

Only wildcat wells, wild-eyed dreams,

delivered an expanded Milne Point and Niakuk fields. It's the basis for BP's plans to
to develop Badami, 40 miles to the east.

Existing infrastructure is also a major factor in BP's current initiatives to commercialize heavy oil in the
Schradir Bluff accumulation within Milne and smaller satellite accumulations in and around the Prudhoe and Kuparuk fields, as well as investments in advanced recovery techniques used in all of the North Slope's producing fields.

Morgan, however, challenged the traditional definition of "infrastructure," pointing out that there's much more to it than roads, pipelines, processing facilities, docks and airstrips.

"Roads, pipelines, processing complexes and other facilities spawned by Prudhoe Bay are only one component of the overall infrastructure needed to enable us to continue to pursue these and other opportunities," Morgan said.

"Infrastructure is also the financial and competitive health of our current operations on the North Slope. It's simply not enough to have good-quality development opportunities."

Due to declining production and rising unit costs, BP's returns on a per-barrel basis at Prudhoe Bay are now second from the bottom among more than 40 producing assets worldwide, Morgan revealed.

"Clearly, we need to make some fundamental changes in the way we do business in order to generate competitive returns at lower production levels," Morgan said.

"It's a populace that makes a genuine effort to dispel that view and build confidence in the state's economy."

"Alaska does not have the population or tax base to support large projects," Ingrassia said.

"There's a need for public/private partnerships to minimize financing and export authority, the Municipality of Anchorage and the Red Dog Mine. Speaking at RDC's conference in November, Ingrassia urged the state to do more to dispel that view and build confidence in the state's economy.

"Alaska must convince investors there is life after oil in Alaska," Ingrassia said. Public and state agencies, she stressed, must continue with tax-exempt or municipal bonds as a means of funding capital projects, and "we must do a better job of landing the capital coming from within Alaska communities, generated from profits and savings.

"The capital is made available to Alaskans to help maintain a good quality of life and keep a vibrant labor force for Alaska's industries," Stutz said.

"Our banks have grown in confidence and capability in Alaska's economy. They historically have not funded significant projects by providing capital to sponsors, but they are increasingly working together and demonstrating a means of funding capital projects, and "we must do a better job of landing the capital coming from within Alaska communities, generated from profits and savings.

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Critic challenges EPA programs

To argue the Environmental Protection Agency (EPA) would benefit from sound science is to accept that its goals are rooted in reality, but that's wrong, an outspoken critic says.

Rather, according to Michael Gough, Director of Science and Risk Studies at the CATO Institute in Washington, D.C., "What do we expect EPA to do?"

Considering the agency's costs and its arguably negligible accomplishments, Gough told RDC that Congress should ask such questions, even though they may not get an answer for years.

Gough did not say that EPA regulations should be halted, but given that its regulations are expensive and often unnecessary, he warned that risk assessments, by themselves, can lead to unnecessary and expensive actions.

"They instill fear and cost great amounts of money and there are few opportunities to oppose them," he said.

Gough challenged two ideas that determine which environmental risks are dressed: the precautionary principle and statements that chemicals in the environment are both safe and harmful.

"The precautionary principle says that you shouldn't do anything unless you can be certain that nothing bad will result," Gough noted. "It is played as an intellectual trump card to avoid having to do something good from evil." Gough said the precautionary principle engenders fear of the future, fear of new things.

Michael-Gough-challenges-EPA-2

Moderator Elizabeth Reinisch poses a question to Rick Albright of the EPA. At right, DEC Commissioner Michele Brown addresses RDC.

In his first major policy pronouncement on international trade, Governor Tony Knowles recently announced three initiatives designed to create more Alaskan jobs and attract international investment to the state.

The governor proposed a "Pioneer Business Incentive" partnership to provide state incentives to international companies that begin operations in Alaska and said he would seek to drop a state jet fuel tax to encourage expansion of in-state oil refineries. Knowles also unveiled a state initiative to provide financing for potential Alaskan exporters through the Alaska Industrial Development and Export Authority.

Paul Glavinho, President of AMERIF, the Alaska Mineral and Energy Resources Education Fund, presents Governor Knowles with a certificate recognizing his support for the Alaska Minerals and Energy Program, a partnership between the private and public sector in Alaska to educate students on the role natural resources play in society.

Jim Bas in China need $5 million to $20 million to expand to maximum capacity, but they don't have fundamental business information about their operations," Bass said. "So people have to bridge the gap. There are significant risks associated with this and it's very costly to clarify risks."

However, the Asian market can be greatly influenced by government policies and unique features that make performance predictions risky. "Most of the companies in China are being phased out. The risk assessment model doesn't have a prayer against China, unless it thinks itself can attract lower capital to the state."

RDC's annual conference on the realities of today's investment climate, Hong Kong Investment banker James Bass said mainland China is the hot spot in acquiring and executing lucrative deals.

Hong Kong banker urges Alaskans to think small

When it comes to competing for capital, Alaska doesn't have a prayer against China, unless it thinks small in its attempts to attract capital to the state.

Speaking at RDC's annual conference on the realities of today's investment climate, Hong Kong investment banker James Bass said mainland China is the hot spot in acquiring and executing lucrative deals. China drew 40 percent of all the developing capital in the world in 1995.

Characterized by a developing economy with potentially large demand, cheap labor, pockets of educated workers and a high cost of living, despite China's size, some incentives are being phased out.

"Alaska can't compete with Asia because it doesn't have the population," Bass said.

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In a keynote address before RDC's 17th Annual Conference November 21, Knowles said Alaska needs to hone its marketing skills in the competitive global market.

Knowles' new Pioneer Business Incentive partnership would provide up to $1 million in incentives to attract international companies to Alaska, such as the first airline willing to provide direct passenger service between Alaska and Japan. Incentives could include promotional assistance for tourists, credits for landing fees or even financing on the cargo side in exchange for passenger service.

In Hong Kong, Bass noted that in China its a real challenge to get important information on such business essentials as financial performance, market share, ownership claims and consumer relationships.

However, the Chinese market can be greatly influenced by political shifts and unique features that make performance predictions risky. "Most of the companies in China are being phased out. The risk assessment model doesn't have a prayer against China, unless it thinks small in its attempts to attract lower capital to the state."

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Cominco gives Alaska mixed reviews in risk-reward profile comparisons

New challenges and opportunities ahead for Alaska in Washington, D.C.

(Senator John Torgerson visits with conference delegates at the Alaska Industrial Development and Export Authority exhibit.)

Pro-development forces have not lost any ground, explaining that the chances for development will improve in the long run as energy prices increase and domestic oil supplies decline. “It doesn’t make any sense for us not to be on the offensive,” he said. “If we’re not in our opposition’s face, we’re letting them off the hook. We need to be prepared for a political opportunistic move, either precipitated by international events or rising energy prices.”

Herrera believes Clinton, faced with the worst trade deficit in years, can be persuaded to rethink his opposition to ANWR. With America now importing more than half its petroleum needs, the long-time Alaskan believes increasing instability in the Middle East will force the President to increase domestic production, the best option for reducing the trade deficit.

“Alaska’s assignment is to convince the President to change his position in respect to ANWR, allowing a small footprint of development on the Coastal Plain of ANWR to produce a potential mammoth domestic oil supply,” Herrera said.

“We can succeed if Alaskans work harder and continue to support the effort.”

New year to bring opportunity for progress

(Continued from page 1)

the ultimate decisions on key resource development issues like ANWR and Tongass are made by Congress, where many members look north for convenient hot-button issues to impress constituents and shore up their record on the environment — without hurting their own state economies.

One problem is that the jobs issue doesn’t play well back East or in America’s heartland, according to Bill Horn, a keynote speaker at RDC’s annual conference on Alaska’s resources, held last month in Anchorage.

“No one in urban America sees jobs being threatened by environmental laws and new restrictions,” Horn told 300 Alaskans attending the conference.

“The perception is on mining companies being affected by government policies or new environmental policies,” Horn explained.

“We need to steal a march and go on the offensive,” he said. “If we’re not in our opposition’s face, we’re letting them off the hook. We need to be prepared for a political opportunistic move, either precipitated by international events or rising energy prices.”

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RDC President Scott Thorson and AMEREF President Paul Glavovich discuss conference proceedings while Cook Inlet Region’s Tom Crafford looks on.

(Continued from page 1)

the new General Manager of Red Dog. Cominco is in Red Dog for the long run, Key noted, because the huge size and high grade deposit, advancing technology and a recovery in base metal prices will all work in the company’s favor.

Key compared Alaska’s risk-reward profile with Cominco’s operations in Peru, Chile, Mexico, Panama, Canada and Oregon before several hundred people attending RDC’s annual conference.

Key noted that while the risk for mining in general is very high, particularly in base metals, Alaska mines add a lot of value with the size and grade of the prospect, regulatory and taxation regimes, costs of development and operation, political security and climate, and public opinion.

While Alaska has a favorable geology and high mineral potential for large orebodies, Key warned that its regulatory regime is among the most complex when compared to permitting requirements in South America, Mexico and Canada.

Key noted that it took his company only 18 months to complete a recent permitting process for a new open pit mine in the Yukon. “For production to begin, a total of one permit was required,” Key said. “In the Yukon, all of the permitting concerns are brought together into one group.”

In comparison, construction of the access road to the Red Dog mine required 33 permits from seven agencies, port facilities required 20 permits from nine agencies and 28 permits from 10 agencies were needed for the mine. Operation of Red Dog requires 10 ongoing permits.

While Alaska compared poorly in the regulatory arena, it fared well in respect to favorable taxation policies on mining. The 49th state ranked dead last in development and operating costs and sat near the bottom in a category comparing trading transportations, utilities and communications infrastructure. Alaska ranked better than average in land access, but tied for last in public attitude toward mining.

So how is Alaska going to attract mining companies into an area which ranks, by Cominco’s analysis, as less attractive than other exploration areas?

As a start, Alaska legislators must commit to provide the resources required to get Alaska out from under the national toxic rule, Key advised. “The perception is that legislators are doing us a favor by cutting funding, has to be dispelled,” Key said.

Key also recommended Alaskans make an effort to minimize the number of permitting agencies, preferably down to one. He also suggested Alaska establish a reclassification system which recognizes the natural state of its streams.

“If Red Dog Creek can’t be reclassified, there is little hope for any stream (reclassification) or for the current regulatory regime,” Key added.

For Alaska to compete for capital, the state must commit to a portion of the country’s technology wins acceptance in the global marketplace.

Public education is also vitally important, Key stressed, to demonstrate how resource development occurs with good environmental practices.

“What I do creates wealth for all Alaska,” Key said. “I know we are doing a great job of protecting the environment. Even though environmental groups will show pictures of the messes left by mining 100 years ago, I know that the miners and other resource producers created the wealth that made this country what it is today. Cominco is here for the long run and will continue to do things right. We will continue to create the wealth our adversaries so dearly enjoy.”

Scendit