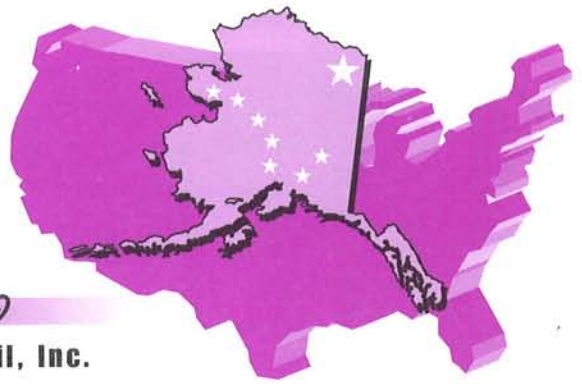


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Resource Review

July 1999

A periodic publication of the Resource Development Council, Inc.



RDC endorses new fiscal plan

Budget gap is real, doing nothing is not an option

Flanked by legislators and Alaska business and community leaders, Governor Tony Knowles signed into law June 10 a bill authorizing a September 14 advisory vote on the use of Permanent Fund earnings to help pay for public services and balance the state budget. If voters support the proposal, legislation will be introduced next session to put the

long-range fiscal plan into effect.

The Balanced Budget Plan uses a portion of Permanent Fund earnings to balance the state budget, after paying dividends and inflation-proofing the fund. The plan is designed to preserve the Permanent Fund dividend, inflation-proof the fund, support public services, and establish a Citizens Balanced Budget Task Force that will present options to further reduce state spending and identify future revenue sources.

RDC is working closely with state leaders — elected officials, business and civic leaders — to develop a campaign to convince Alaskans that the plan is a viable long-term solution to the state's \$1 billion budget gap. RDC is on the Executive Committee of a new citizens group that will be directing the campaign. The group, "Vote Yes Protect Alaska's Future," includes a broad spectrum of Alaskans.



Governor Tony Knowles signs into law an advisory vote on the Balanced Budget Plan.

The organization will spend three months educating Alaskans on why they should endorse the Balanced Budget Plan and how doing nothing would put Alaska's economic future and the dividend at risk.

The proposal that will be going before Alaskans this fall would consolidate the State's Constitutional

(Continued to page 4)



Senate Finance Co-Chair Sean Parnell explains why taxes alone will not solve the State's fiscal problems.

Anchorage to oppose beluga whale listing

Senator Ted Stevens has pushed through a hunting ban on Cook Inlet beluga whales as part of a larger budget bill signed by President Clinton late last month, and the Municipality of Anchorage will oppose a move by environmentalists to list the species as endangered under the federal Endangered Species Act.

The Stevens ban halts hunting this summer until Native groups hammer

out a co-management agreement with the National Marine Fisheries Service (NMFS). Federal officials report that a voluntary effort among Natives to stop hunting of belugas in Cook Inlet appears to be holding, but efforts for a long-term agreement on hunting the whales have been stymied by a dispute between Cook Inlet tribal governments and Natives from other parts of Alaska.

NMFS hopes to come up with an

agreement that will limit Native hunters to a small number of whale strikes until the population rebounds.

Federal biologists claim the beluga population in Cook Inlet has declined by half in the past four years. Native hunting is believed to be the chief reason behind the decline. Hunters took 78 whales last year, biologists report.

NMFS says the current population,

(Continued to page 6)



Message from the Executive Director by Ken Freeman

Clinton may use Antiquities Act to ban use of public land

With the 2000 presidential election around the corner, the Clinton administration is planning to ban most public uses on 5 million acres of federal land in six states, including Alaska, to win points with environmental voters and bolster its environmental record, according to reliable sources and media reports.

Interior Secretary Bruce Babbitt is expected to use his regulatory authority to halt mining, grazing, logging and oil and gas exploration on public lands. In many cases, all recreational uses, except walking and meditating, would be banned.

"We have to be wary," Senator Frank Murkowski warned the Washington Times. "They want to

appease the extreme environmentalists who have this on their agenda and want this to happen. In the next 18 months we will see a significant movement to usurp congressional authority."

Babbitt may ask President Clinton to use the Antiquities Act to declare some of the five million acres as national monuments. Many Alaskans remember when President Carter evoked the Antiquities Act twenty years ago to set land aside in Alaska for preservation.

History may soon repeat itself as the 1.5 million-acre ANWR Coastal Plain, America's hottest onshore oil prospect, is at the top of the administration's hit list. President Clinton received kudos from environmentalists when he used the act during the 1996 presidential election to create the 1.7 million-acre Grand Staircase-Escalante National Monument in Utah to stop mining and other development.

Also on the list is 2.6 million acres of proposed Wilderness in Utah, as well as 505,350 acres in Arizona. Several miles of the Upper Missouri River in Montana is also being considered for national park or refuge status.

In a written statement, Babbitt's office said Republicans should be helping the administration draft legislation to protect the five million acres in the western states from "big mining companies, the big oil companies and the big developers who want to chop up what's left of their unspoiled American public lands."

Removing these lands from future exploration will hurt local communities by eliminating jobs and tax revenues. It will also increase America's dependency on foreign oil.

"Their goal is to turn public lands into a museum -- where all of the people are on the outside looking in," said Laura Skaer, executive director of the

Northwest Mining Association. "I think they have quietly declared a new war on the West. I expect Clinton will find all sorts of national monuments to start popping up between now and November 2000."

Republican lawmakers and industry sources say it appears the administration has launched an orchestrated campaign to preclude mining on vast acreages of public lands that is suppose to be managed for multiple uses. The administration is reportedly doing this without consulting Congress and without soliciting public input or independent scientific review.

In a letter to his Senate colleagues, Senator Murkowski pointed to a May 22 National Journal article in which Babbitt is quoted as saying: "We've switched the rules of the game. We're not trying to do anything legislatively."

GOP lawmakers are hoping to fend off the administration through new legislation to amend the Antiquities Act. Senator Larry Craig of Idaho is pushing one bill which would ensure public and congressional participation in the establishment of new national monuments. The bill would not only require full public participation, but environmental compliance and congressional ratification. The bill would also require the Interior Department to determine the value of minerals and surface natural resources before making a recommendation to the president.

"Our general concern and frustration is what the administration did in Southern Utah they could do everywhere else in the country, and that they were unwilling to work with Congress," said Craig. The Idaho statesman noted the Antiquities Act has become a political tool and not a means to protect unique environmental assets.

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 an orderly manner and to create a broad-based, diversified economy while protecting and enhancing the environment.

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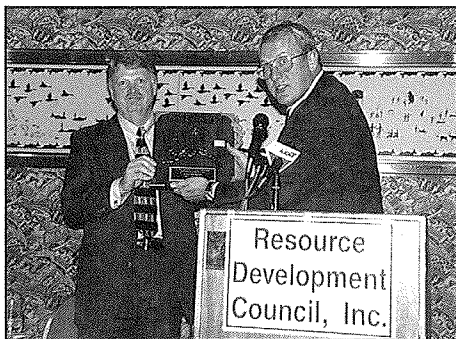
New officers, board elected at 25th Annual Meeting

James F. Branch, Production Manager-Alaska for Exxon Company, has been elected President of the Resource Development Council. Branch was elected to the top board seat at RDC's 25th Annual Meeting June 3 at the Sheraton Anchorage Hotel.

Robert B. Stiles, President of DRven Corporation, was elected Senior Vice President while Charles W. Johnson, President of Era Aviation, was elected Vice President. Uwe Gross, Chief Executive Officer of Koniag, Inc., was re-elected Secretary and Stan Foo, State Manager-Alaska for Placer Dome North America, was elected Treasurer.

Branch is a Native of San Antonio, Texas and received bachelors and masters degrees in Mechanical Engineering from the University of Texas. He joined Exxon in 1976 as a drilling engineer in the south and east Texas areas. Since that time he has held various engineering, planning and management assignments in Exxon's onshore and offshore production operations based in Texas and Louisiana and in the Natural Gas Department in Houston.

In September 1994, Branch moved



Vice President Bob Stiles presents Allen Bingham with a special plaque for his service to RDC. Bingham served two consecutive terms as President.



Members of RDC's new 1999-2000 Board of Directors gather at the Sheraton Anchorage.



A public luncheon, featuring Congressman Don Young and state economist Rudy Tsukada of the Alaska Department of Commerce and Economic Development, followed the election of new officers. More than 350 people attended the annual gathering of RDC members.

to Anchorage to assume his current position, which involves management of Exxon's production-related activities in Alaska and involvement in community and government affairs. He is a member of Governor Knowles' Oil and Gas Policy Council and is a founding director of the Fiscal Policy Council of Alaska.

Elected to RDC's 78-member statewide board of directors were Ronald Gelbrich, Klukwan, Inc., Ketchikan; Erling Johansen, Davison & Davison, Anchorage; William McLaughlin, Peak Oilfield Service Company, Anchorage; Mayor Mike Navarre, Kenai Peninsula Borough; Bernard Nidowicz, Harding

Lawson Associates, Anchorage; Mayor Sarah Palin, Matanuska-Susitna Borough; William Schoephoester, Petro Marine Services, Anchorage; Patrick Smith, Kennecott Exploration Company, Anchorage; Lon Trotter, Alyeska Pipeline Service Company, Anchorage and Nancy Usera, Alaska USA Federal Credit Union, Anchorage.

Two new members to RDC's Executive Committee include Mark Hanley, Anadarko Petroleum Company, and Stephanie Madsen, Pacific Seafood Processors Association.

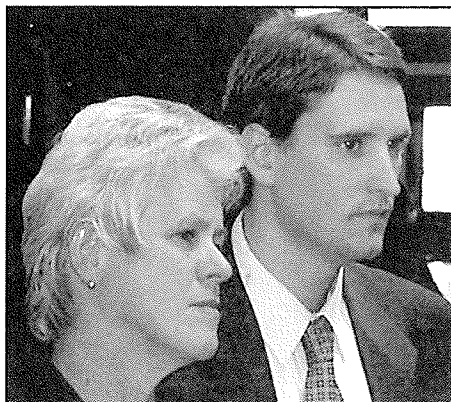
The Board selected Dutch Harbor for its 1999 community outreach trip.

Governor, legislators take action on new Balanced Budget Plan

(Continued from page 1)

Budget Reserve (CBR) and Earnings Reserve Account into a new account, called the Alaska Income Account. Exactly 5.88% of the Permanent Fund's annual earnings would be placed into this account annually, with 50 percent of those deposits, averaged over five years, going toward dividends.

In 1999 and 2000, the dividend will be guaranteed at a minimum of \$1,700. The following year, it is anticipated that the dividend will be approximately \$1,340 and will continue to grow with the value of the Permanent Fund itself. No income tax is required under the plan. The Balanced Budget Plan will be



RDC Executive Director Ken Freeman and The Alliance General Manager Karen Cowart observe Governor Knowles signing legislation authorizing the upcoming vote.

enacted by the Legislature only after — and only if — voters approve it in the September advisory vote.

RDC Executive Director Ken Freeman warned that the growing budget deficit is a significant threat to Alaska's economy. He said the long-range fiscal plan will put Alaska on secure financial footing for the future.

"The state's rising fiscal gap creates an image of fiscal instability which in turn generates uncertainty among potential and existing industry investors," Freeman said. "Combining

Permanent Fund earnings and the state's CBR account to create an endowment is a good way to bring much-needed revenues to the deficit."

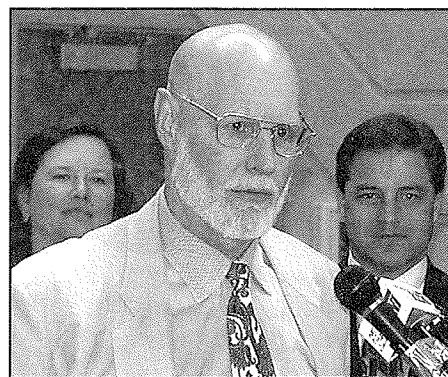
Freeman explained that budget cuts and increases in state efficiencies have helped reduce the deficit, but cannot come close to filling the \$1 billion gap. He said RDC's message has been consistent — there must be a plan to address the gap and the time has come to utilize the earnings of the Permanent Fund.

"The bipartisan support for this plan that balances the budget and protects the dividend program is a positive step for Alaska and puts us on the way toward a sound financial future."

- Governor Tony Knowles

Given the fluctuating price of oil and steadily declining production at the state's largest oil fields on the North Slope, RDC and Alaska's top policy-makers believe it is now time to begin using Permanent Fund earnings to bring stability to public budgeting.

Alaskan voters created the Permanent Fund in 1976 with the



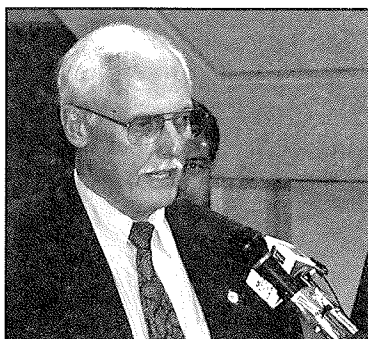
University of Alaska President Mark Hamilton speaks in favor of the measure at June's bill signing ceremony.

purpose of saving some of the value of the non-renewable oil resources for a time when those resources ran out. In 1976, that day of reckoning was expected to be sometime in the 1990s, when Prudhoe Bay was predicted to be depleted. Technological advances extended the life of the field by many years, but now historically low oil prices have collided with falling production to create a billion dollar budget deficit.

Various proposals have been put on the table to fill this gap, including a new income tax, a statewide sales tax and extreme reductions in state spending. While the proposed income tax could raise an estimated \$350 million, it would also require a new bureaucracy to administer it.

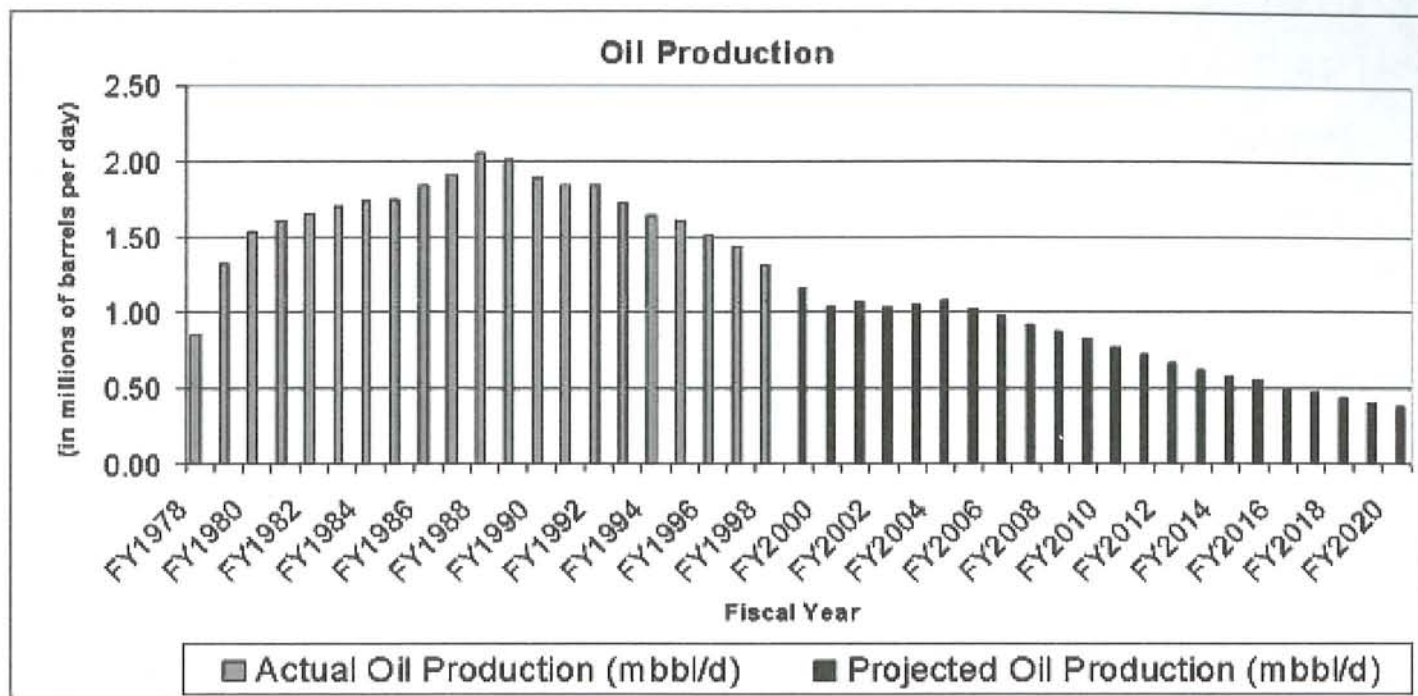
Legislators have cut state spending by nearly \$1 billion over the past decade and filled the gap in the budget since 1982 by drawing more than \$3.4 billion from savings accounts, but the State cannot continue to draw down those accounts. The State has right now a window of opportunity to make the changes needed to fix the fiscal gap because it still has enough money in

(Continued to page 5)



"It has been said before and it bears repeating: doing nothing is not a responsible option. If we do not act now, our only alternatives will be drastic cuts to essential state services, suppressive taxes, or possibly a combination of the two."

**- House Majority Leader
Joe Green**



The long-term decline in oil production means, regardless of price, oil revenues can no longer fund the lion's share of our state budget. North Slope production, now in its third decade, has fallen too far to ever again carry the entire state budget on its financial shoulders.

Fiscal plan: Now is the time to act for Alaska's future

(Continued from page 4)

savings to make a solution work.

"The bipartisan support for this plan that balances the budget and protects the dividend program is a positive step for Alaska and puts us on the way toward a sound financial future," said Governor Knowles. "Alaskans' choice is whether to diversify how we pay for public services — or to continue relying on fluctuating oil prices and production."

"We are at a significant juncture in our state's history," said Senate President Drue Pearce. "Together, the Senate, House and administration have developed a realistic, workable, long-range plan that can be used to close the state's ongoing fiscal gap. We think the long-range plan we are asking Alaskans to judge offers the best solution for Alaska's economic security."

"It has been said before and it bears repeating: doing nothing is not a responsible option," said House Majority Leader Rep. Joe Green. "If we do not act now, our only alternatives will be drastic cuts to essential state services, suppressive taxes, or possibly a combination of the two."

What is the impact of doing nothing?

- Under the current system, the continued payout of dividends is not guaranteed. The likely reversal of the bull market, combined with the required statutory inflation proofing of the Permanent Fund and population growth could severely impact the dividend.
- Doing nothing to change the current budget system means that within six years Alaska's savings accounts -- the Constitutional Budget Reserve and the Earnings Reserve -- would be gone. At present spending levels, the CBR would be exhausted by 2003.
- Large statewide taxes would have to be imposed on individual Alaskans and Alaska businesses and industries.
- Draconian costs would be required, impacting essential state services such as education, transportation and public safety.

Why cuts alone and rising oil prices won't balance the budget

- Alaska has cut its budget by \$1 billion in the past decade. Balancing the budget through new cuts alone would mean eliminating programs and services most Alaskans deem essential.
- The budget gap would remain even if oil prices rise significantly. That's because North Slope oil production is steadily declining.

Beluga issue raises serious concerns

(Continued from page 1)

estimated at 347 last summer, can sustain a harvest of two percent, which would be seven whales. Such a harvest would slow the recovery of the beluga population, but it would be a small fraction of the harvest from previous years.

Some Native leaders have challenged the accuracy of the population estimate, calling it too low. They note that the purported magnitude of the population decrease is suspect because current numbers, derived from using a recently-revised counting methodology, are compared to old numbers which have not been adjusted to the new methodology.

Seven environmental groups and one individual have filed a petition with NMFS seeking to designate the whale as endangered and to establish Cook Inlet as a critical habitat area for belugas.

If granted, these designations will have a significant impact on all activities occurring in and around Cook Inlet.

Because of concerns how the designation would affect economic development, the Municipality of Anchorage will oppose the listing of the belugas as endangered. The Municipality favors a co-management agreement between NMFS and Native hunters.

"We believe listing is premature because scientific evidence shows that over harvesting of the whales is the main cause of decline," said Sherman Ernouf, spokesman for Mayor Rick Mystrom. "Ernouf said an endangered species listing could unnecessarily add additional regulatory burden to a wide range of activities, including shipping, tourism, oil and gas operations, commercial and sport hunting, dredging to clear shipping channels and discharge permits for treated sewage.

Brian Crewdson, Assistant to the General Manager of Anchorage Water and Wastewater Utility, said federal officials might require a special filtration system to be installed at the city's main treatment plant if the beluga were listed.

That could cost the city up to \$500 million, resulting in multi-fold price hikes for Anchorage residents and businesses.

"Almost everyone agrees hunting is the main issue," Crewdson said. "We've been doing lots of monitoring of Cook Inlet and there is no evidence that development activities are contributing to the problem."

Patricia DeMarco, President of the Anchorage Economic Development Corporation, urged the Anchorage Assembly to oppose the listing. "There is a great deal at stake here for our community," DeMarco said. "We've had one slip past us."

"Almost everyone agrees hunting is the main issue. We've been doing lots of monitoring of Cook Inlet and there is no evidence that development activities are contributing to the problem."

- Brian Crewdson
AWWU

Just last month environmentalists demanded that the U.S. Army Corps of Engineers halt the long-planned dredging of a shipping channel in Cook Inlet, citing the declining beluga population. The two-year, \$12.6 million project is intended to deepen the channel so larger ships can navigate into the Port of Anchorage at low tide, saving shippers as much as \$2 million a year.

Roger Graves, Environmental Affairs Manager at the Port of Anchorage, said the project "is not going to do any damage to anyone or anything out in Cook Inlet."

Meanwhile, the Corps and NMFS have implemented special measures to protect the whales from any potential negative impacts from the dredging operation.

The recent challenge to the dredging is only a sign of what is to come if NMFS moves forward with a listing, according to RDC Executive Director

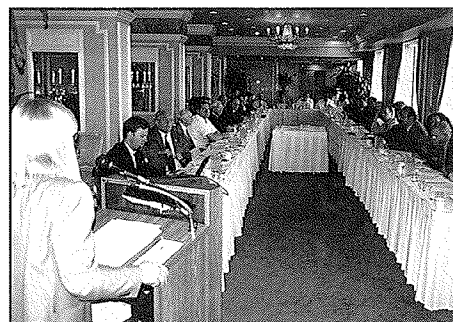
Ken Freeman. "The implications of such a listing are striking and widespread," Freeman said. "Environmental interests could use the beluga whale as a tool to obstruct activities in Cook Inlet which comprise the backbone of Southcentral Alaska's economy."

Freeman noted that since development activities are not the cause of the declining beluga population, they shouldn't be considered part of the solution. He voiced serious concern about the added costs of additional regulation to Southcentral Alaska's resource industries and the affect on general commerce in the region if a listing occurs.

"The best approach to the beluga issue is to keep focusing on the problem and avoid using the whale as yet another tool to unnecessarily penalize our resource industries," Freeman said.

RDC and other Alaska organizations have requested NMFS to reopen the status review on Cook Inlet belugas so Alaskans can provide input to the agency based on new information which has become available since the review was initiated in November 1998. NMFS has rejected these requests and suggests instead that if a listing is proposed, the public will have an opportunity to comment on that proposal. This is unacceptable to RDC as it is critical that Alaskans have an opportunity to submit comments to NMFS before it makes any decision on a designation.

"To our knowledge, NMFS has never backed away once it makes a listing proposal," said Freeman.



Teresa Imm presents a status report on the Alaska Mineral and Energy Resource Education Fund to the RDC board at its Annual Meeting in Anchorage last month. Imm serves as President of AMEREF.

Louisiana Pacific to sell Ketchikan operation

Louisiana Pacific Corporation (LPC) is in final negotiations to sell its Ketchikan Pulp Company subsidiary to Gateway Forest Products, a new Southeast Alaska company.

"After a thorough examination of our options and close consultation with our board, we have chosen to sell our remaining operations in Southeast Alaska," said Mark Suwyn, Chairman of LPC. "While the region has a plentiful supply of renewable resources and an excellent work force, we were not able to justify a continued presence given recently reduced levels of timber available from the U.S. Forest Service."

A large wood products and pulp manufacturer operating in Southeast Alaska for decades, LPC, through its subsidiary, Ketchikan Pulp Company,

has scaled back its operations over the past several years due to reductions in timber available from federal lands in the area. Until recently, LPC had been negotiating with federal officials for a timber supply sufficient to operate a value-added veneer mill it was preparing to build in the region.

Gateway, whose top executives will include several professionals from the Southeast Alaska wood products industry, intends to operate a veneer facility in Ketchikan. As a local business, the company will be well situated to compete and qualify for federal timber sales in the region.

"Our hope is that the purchasing company can continue to provide jobs for the employees and an economic livelihood for the region," said Suwyn.

LPC helped pioneer logging in the Tongass National Forest as it was one of two major companies to win long-term timber supply contracts in the 1950s when the federal government took action to expand the area's economic base by establishing a viable timber industry in the region. But a crusade by environmental interests with help from the Clinton administration resulted in a series of administrative actions which sharply curtailed logging and closed all but a small fraction of the Tongass to harvesting.

While U.S. Senator Frank Murkowski said he was pleased to see Gateway in final negotiations to buy Ketchikan Pulp Company, he blasted the Forest Service for forcing big timber companies out of Southeast Alaska.

brief review

Winners pay \$104 million to drill in petro reserve

Oil companies with winning bids will pay \$104 million for leases in the National Petroleum Reserve-Alaska. A total of 425 tracts on 3.9 million acres were offered by the BLM in the May lease sale.

Six oil companies submitted 174 bids on 133 tracts. The overwhelming number of bids were focused in the northeast corner of the lease sale area on tracts rated as having high potential for oil and gas discoveries.

The federal government will share the proceeds with the State of Alaska on a 50-50 basis. The last lease sale that generated revenue was held in 1983 and earned \$21.5 million.

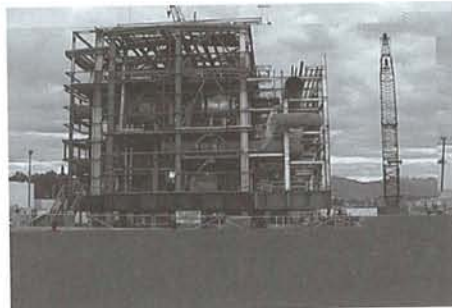
Cominco wins Alaska Exporter of the Year Award

RDC Board member John Key, General Manager of the Red Dog Mine, accepted the Alaska Export Council's Exporter of the Year Award at the group's annual banquet in Anchorage May 20.

Key noted Cominco exports 1 billion pounds of zinc concentrate a year from Red Dog, the world's largest zinc mine.

Key credited the Alaska Industrial Development and Export Authority, as well as its partner, NANA Regional Corporation, for Red Dog's success. The mine, which is located Northeast of Kotzebue, produces eight percent of the world's annual zinc production.

MIX module is set for North Slope delivery



This 2,700-ton compressor module being constructed at the Port of Anchorage, is the largest oil field production module ever assembled in Alaska. The module is part of the Miscible Injectant Expansion (MIX) project. It will be delivered to the North Slope this summer by barge. Installation of the module will add 20,000 barrels of incremental oil production per day at Prudhoe Bay and increase ultimate Prudhoe Bay liquids recovery by 50 million barrels. The project is managed by ARCO Alaska and is being built with its partners, BP Amoco and Exxon. Lead contractor is VECO Corporation.

RDC greets energy chief



RDC co-hosted a reception in Anchorage with the Alliance and other organizations welcoming Energy Secretary Bill Richardson to Alaska. Richardson joined Senator Frank Murkowski on a visit to Alaska, which included a tour of North Slope oil fields, Barrow and other sites. Pictured above is RDC's Ken Freeman with Richardson.

RDC delegation meets with new water chief

A delegation of RDC board members recently met with Randy Smith, the new incoming director of EPA's Region 10 Water Office. The delegation focused on a number of water quality issues, including 401 certifications, stream reclassifications, mixing zones, modification of extended permits, general permits for placer mining, log transfer facilities and regulations which poorly reflect Alaska's unique circumstances. RDC board members delivered industry's perspective to the new incoming director.

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