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Resource Review

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Roadless rule, Steller sea lion restrictions level double blows

Roadless policy impacts likely to hit Tongass sooner than later

The Clinton administration's decision to sweep the Tongass National Forest into its new roadless policy in 2004 will likely have an immediate impact on Southeast Alaska's beleaguered timber industry. The new policy would ban road construction and logging in 9.3 million acres of roadless areas of the Tongass.

Although the roadless plan implies that its application to the Tongass would be delayed four years, in reality some effects will be felt immediately and will become incrementally worse within that period.

"While the policy is not to be imposed immediately in Alaska, it won't be long before the Forest Service begins managing roadless areas as if they were already included in the road ban," said John Sturgeon, President of Koncor Forest Products. "It's a good bet that environmental groups will also file administrative appeals and lawsuits challenging any road construction or timber sales in any area of the forest destined to fall under the policy," Sturgeon added.

"My staff has talked to timber and Forest Service officials and learned that they intend to almost immediately begin reducing timber harvests in the Tongass so that harvests will ramp down

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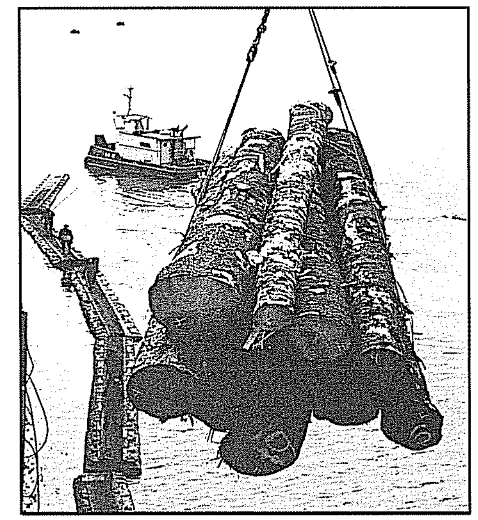
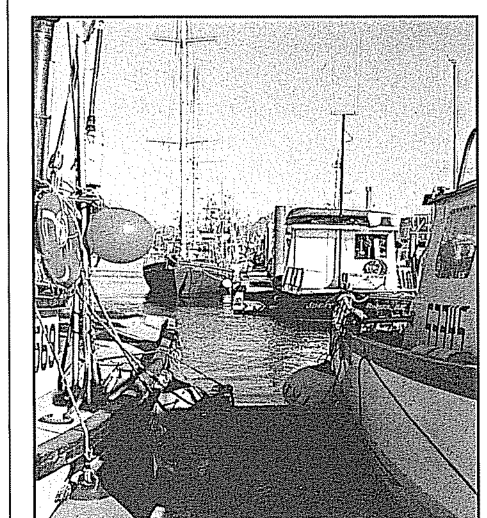


The new roadless policy could spell the end to the timber industry in Southeast Alaska.



A new federal plan to protect Steller sea lions could bring economic disaster to Alaska's fishing industry and coastal communities.

Sea lion restrictions could devastate coastal communities

A court-ordered plan to protect the endangered Steller sea lions has sent shock waves through Alaska's fishing industry.

Fishermen said the plan, a 588-page "biological opinion," by the National Marine Fisheries Service (NMFS), is even worse than an earlier court-imposed ban on bottom-fish trawling along coastal Alaska.

"The restrictions are more onerous," said John Iani of UniSea Inc., which operates a huge fish processing plant in Dutch Harbor.

"The fishing industry is now looking at the greatest crisis it has ever faced," said Al Burch of the Alaska Draggers Association. "This plan will bring economic devastation to our industry and coastal communities."

U.S. District Judge Thomas Zilly imposed a trawl ban last August, saying NMFS had violated the Endangered Species Act by failing to write a legally adequate biological opinion on how best to protect the sea lions whose population has fallen sharply over the past decade. The ban knocked fishing fleets out of waters within 20 nautical miles of sea lion breeding and resting areas, the same areas where pollock and cod concentrate.

With the federal plan now in place,

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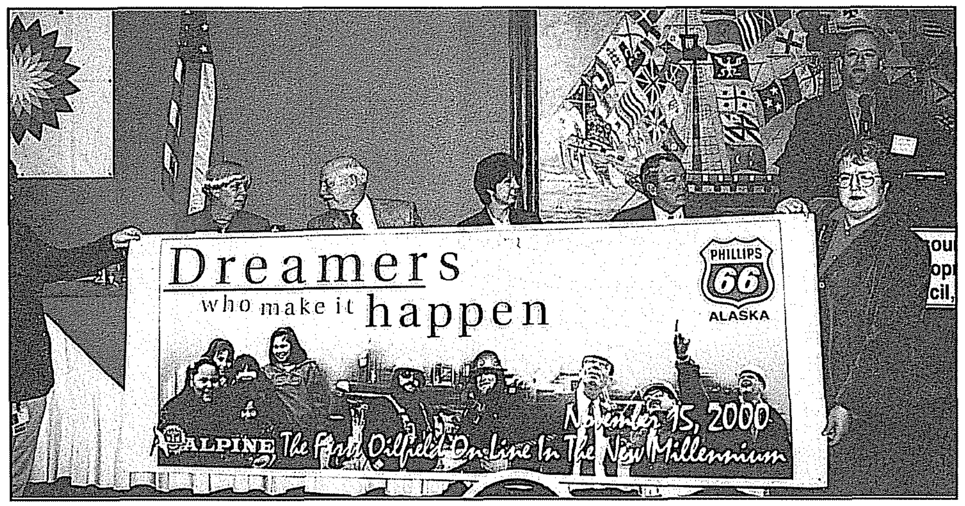
Message from the Executive Director
by Ken Freeman

Alpine starts up, oil flows to market

Congratulations to Phillips Alaska Inc., and Anadarko Petroleum Company for bringing the Alpine oil field on line. Ryan Lance, Vice President Western North Slope for Phillips, made the start-up announcement at RDC's 21st annual conference last month.

Alpine, located on Alaska's North Slope west of Prudhoe Bay, is expected to reach peak production of 80,000 barrels per day by the end of the year. Gross recoverable reserves are estimated at 429 million barrels.

Alpine is a key addition to Phillips' Alaska operations in that the new field is expected to help stabilize the company's production levels in Alaska. Phillips and Anadarko are hopeful that the start-up of Alpine is just the first in what may be a succession of new, important Alaska oil and gas fields.



Phillips is operator of Alpine and holds a 78 percent interest while Anadarko holds a 22 percent interest. The start-up announcement was made at RDC's recent annual conference.

The largest onshore oil field discovered in the United States in more than a decade, Alpine is also the western-most producing oil field on Alaska's North Slope. The field is located in the Colville River areas, 34 miles west of Kuparuk and is near the border of NPR-A.

The 40,000-acre field was developed on just 94 acres, or two-tenths of one percent of the field area. In addition, Alpine is a zero-discharge facility. There is no permanent road to the field, and in the winter ice roads are used to get equipment and drilling supplies to the site.

Alpine's drill sites and facilities were located in areas where they have minimal impact on wildlife, waterfowl and the subsistence lifestyle practiced by residents living in the nearby village of Nuiqsut.

"Alpine is the realization of the fact that our traditional subsistence interests can be balanced with the development of oil and gas interests," said Isaac Nukapigak, President of Kuukpik Village Corporation, based in Nuiqsut.

RDC Board member Ryan Lance noted that his company spent more than eight years studying the environment in the Colville River delta area and working with the residents of Nuiqsut. Lance emphasized that Phillips and the Alpine team placed a high value on respect for the land and the people who live there.

The start-up of Alpine is also a welcome event for the shareholders of Alaska Native corporations as the field is the first significant commercial oil production on lands conveyed to an Alaskan Native Corporation through the Alaska Native Claims Settlement Act. Under the terms of ANCSA, 70 percent of the net revenues realized by the Arctic Slope Regional Corporation will be distributed among all regional corporations in Alaska.

Development of the field will total more than $1 billion, of which over $800 million has been spent with Alaska contractors. Alpine is anticipated to generate more than $1 billion for the State of Alaska in tax and royalty payments over the life of the field.

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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Writer & Editor
Carl Portman

North Slope Mayor George Ahmaogak addressed the LNG option.

commercialization manager.

This isn't the first time the producers have worked together to commercialize North Slope gas, said Mark Sikkel, Vice President of North American operations for ExxonMobil. Sikkel noted that more than $1 billion has been spent by the three companies on joint efforts.

While much of the discussion focused on stranded gas, Anadarko's Greg Pensabene, the company's Vice President of Government Affairs, said Anadarko is aggressively pursuing new gas exploration in Alaska by acquiring more prospective acreage and launching a large seismic program this winter. Pensabene said his company's focus will be on the North Slope's estimated 72 trillion cubic feet of undiscovered gas, as opposed to the 35 trillion cubic feet of known reserves.

On the second day of the conference, one of Alaska's leading mining experts said future mining activity and the long term strength of the multi-billion dollar sector will depend on metal prices, capital markets, application and expansion of new technology, new discoveries, the availability and cost of energy and the regulatory and permitting climate.

"One need only to look at the capitalization levels of the world's major mining companies to realize that the attractiveness of this market as an investment has seriously waned over the past three to five years," warned Paul Glavinovich, a independent geologist and consultant. "The strong profitability posted by many of the major mining companies is not being reflected in their stock prices; hence, major new mine investments are either being financed through cash flow or debt."

The lack of investor interest in the mining sector is having a particularly profound impact upon the ability of the junior mining companies to finance exploration and development, Glavinovich said. He said major mining companies are replacing reserves through mergers and acquisitions and are slowly withdrawing from grass roots exploration.

"We therefore must look to the junior mining companies to provide the discoveries of the future," Glavinovich said. "These same junior companies are experiencing extreme difficulty in that they cannot provide the investment glamour of the 'dot-coms' and are struggling to sustain a competitive presence. Any reduction in the activity level of the junior mining companies translates directly into a reduction in the odds for discovery."

While Alaska is well endowed with promising geology, access to many areas, especially federal, are largely compromised by conservation system units, Glavinovich pointed out.

With regard to permitting, Glavinovich said it does no good to discover a viable mineral deposit if one cannot secure the necessary permits and political blessings to place a deposit into production. Regulatory risk, Glavinovich said, ranks right up there with geology, mining history and taxation policies.

Permitting a mine in Alaska should be considerably more efficient and predictable, Glavinovich said. "We have a track record of accomplishment, but it has not been without a lot of blood, sweat and tears and at the cost of tens of millions of dollars per site. Far too much of this money has been spent responding to emotional issues rather than substance. There is room for improvement."

Given the scheduled expansion of the Red Dog, Greens Creek and Fort Knox mines, the annual $1.12 billion current value of Alaska's mining industry is likely to increase for the next several years. However, outside Alaska's two big flagship mining projects, Red Dog and Pogo, the industry is attracting little new investment, and exploration and development are lagging.

In timber, Koncor Forest Products President John Sturgeon warned the industry could disappear, depending on the outcome of the presidential election.

Greg Baker, President of Westward Seafoods, warned that the economic base of coastal communities will be devastated if the current restrictions on the pollock and cod fisheries remain in place.

Gas producers announce joint work program

The three major Alaska North Slope gas producers have agreed to a joint work program on an Alaska gas pipeline project. Ultimately, such a project would involve a pipeline system to deliver gas from Alaska's North Slope to Canada and the Lower 48.

The agreement initiates the first steps in progressing the project. The key program activities over the next year will be conceptual design, project costing, permitting considerations, commercial structure and overall viability. The focus will be on route selection, leading to a filing of applications with U.S. and Canadian regulatory agencies.

The participants in the program are BP, Phillips and ExxonMobil. Costs of the work program will be shared equally. The companies believe that having the three major producers working together, combining their gas, financial and technical resources, gives the project its best chance for success.

At this point, the initial work program is expected to cost about $75 million. Staffing levels could range from 50 to 100 full time staff from the three companies, with significant contractor support.

The industry has discovered more than 35 trillion cubic feet of gas on the North Slope. The fields hold the largest untapped gas reserves in North America.

Conference covers full spectrum of Alaska's resource industries

(Continued from page 3)

if not impossible, and if it was ever approved, the cost of construction could be staggering."

Echoing Governor Knowles' comments on timeline advantages, Duncan estimated that the Alaska Highway project is probably several years ahead of any other development. "The value of that advantage shouldn't be discounted or ignored," Duncan said. "It is a near term development prospect that could begin in just two or three years. It is unlikely that other projects could even be permitted in that time frame."

Forrest Hogland, Chairman of Arctic Resources Corporation, the sponsor of the northern route, said his company can build its project for $6.9 billion and carry both Alaska and MacKenzie gas to market, creating large economies of scale for owners of the gas on both sides of the border.

Michael Stewart, co-chair of Foothills Pipe Lines, the sponsor of the Alaska Highway route, said his company can build the pipeline through Alaska's Interior and down through the Yukon for $7.6 billion. Stewart said Foothills looked closely at a northern route and concluded it wasn't feasible because of serious permitting, regulatory and environmental challenges that could extend the project's timelines and costs.

Under the Arctic Resources proposal, an estimated 2.5 billion cubic feet of gas per day from the North Slope would be combined with 1.5 billion cubic feet from the MacKenzie Delta to deliver 4 billion cubic feet per day to gas markets in the Lower 48. The Arctic Resources model shows the "net back" value of natural gas on the North Slope would be $1.45 to $1.75 per thousand cubic feet, 75 cents to $1 per thousand cubic feet more than the net back from the southern pipeline route through the Interior.

Hogland said it would cost more to ship gas via the southern route, creating a lower net back value, because that pipeline would be more expensive and would carry only 2.5 billion cubic feet per day of North Slope gas to market.

If the southern route is built, there will be a $7 billion loss of value of the known 35 trillion cubic feet of gas on the Slope because of the lower wellhead value, he said.

Stewart, of Foothills Pipe Lines, estimated that as much as 20 percent of U.S. gas demand will be supplied from Alaska and northern Canada. If that eventually is the case, Stewart said both pipelines will eventually be built. He predicted each project will proceed independently on timelines reflecting each project's regulatory requirements, the readiness of the producers and the needs and interests of affected communities.

Senator Drue Pearce spoke to the Legislature's interest in North Slope gas development. Pictured at right is Dan Adamson, Director of FERC's Office of Energy Projects.

AMEREF President Teresa Imm is flanked by Rep. Ethan Berkowitz and Governor Tony Knowles at the keynote breakfast headtable.

Senator Drue Pearce pledged the legislature's full support of developing North Slope gas reserves. "I think that it is important that companies continue their efforts to commercialize North Slope LNG," Pearce said. "No stone should be left untouched. The Legislature has demonstrated that it will support those efforts. However, I am convinced that changing circumstances now make it more likely that North Slope natural gas will move by pipeline to the Lower 48 states first, and that LNG export opportunities, the economics of which may actually be improved through the synergies of shared infrastructure with an overland pipeline, will develop later."

Peace said her colleagues in the legislature have an obligation to assure that the state's interests are fairly considered when choosing between competing projects. "In fact, I believe the legislature will insist upon that participation," Pearce said. "We also have a continuing oversight responsibility under the Stranded Gas Act and other statutes that will have implications for any North Slope gas project."

Meanwhile, the three major producers – BP, Phillips Alaska and ExxonMobil – are working together on memorandums of understanding, scoping documents, operating strategies, timing for bringing in additional partners and other considerations, said Joe Marushack, Phillips Alaska's gas

RDC conference draws record attendance

Optimism among delegates on gas prospects marks opening day

RDC's November conference attracted record attendance and was filled with optimism during its opening day as some 20 speakers focused on the prospects for developing the North Slope's massive natural gas reserves, but the mood shifted the next day when the focus switched to timber, fisheries and mining.

The annual gathering of Alaska's business and community leaders is unique because it's the one place that Alaskans can get a timely update on the latest issues before each of the state's resource industries.

The enthusiasm among more than 400 attendees was driven by the prospect that after a quarter century of talk, a multi-billion dollar project to bring stranded North Slope gas to market may actually get off the ground within the next several years.

However, caution and concern ruled the second day of the conference when the focus switched to serious challenges other industries are facing. In Southeast, new restrictions on timber harvests are threatening to finish off what is left of the state's struggling forest products industry. In Southwest and the Gulf coast, environmental lawsuits over the Steller sea lions threaten to wreck local economies, built largely on pollock and cod fisheries.

Speaking before a capacity crowd the conference's keynote breakfast,

Robbie Luxbacher, Vice President of Americas ExxonMobil Gas Marketing Company, outlines the domestic market.

Governor Tony Knowles endorsed a natural gas pipeline route down the Alaska Highway, citing what he considers are time, cost and technical advantages over a shorter route from Prudhoe Bay directly east under the Beaufort Sea to the MacKenzie River Delta.

"Paraphrasing the old political adage, 'it's either may way or the highway,' my response to the routing question is, 'my way is the highway,'" Knowles said.

"It is my belief that the Alaska Highway pipeline can be completed sooner than the Beaufort Sea route and take advantage of the market demand, and prove to be the most economical route for the producers and the greatest revenue producer for the state," Knowles said.

Knowles said that the Alaska Highway route can be built far sooner, pointing out that much of the permitting, international agreements and environmental considerations are already completed.

"There is a clear advantage in timelines when dealing with a known quantity that has existing infrastructure and previous development along the route. The highway route has a huge head start on the Beaufort Sea project, which has no precedent and formidable technical, environmental and logistics challenges that may never be satisfactorily answered," Knowles added.

Yukon Premier Pat Duncan challenged the assertion that a MacKenzie project would be cheaper to construct. She said the project would only be cheaper if it does not include North Slope gas. "Obviously, a small diameter pipeline, moving one BCF per day of gas, would be less expensive to build than a larger pipeline moving three or four times as much gas," Duncan said.

Duncan emphasized that permitting the Beaufort project "would be difficult,

(Continued to page 6)

Yukon Premier Pat Duncan and ASRC's Charlie Brower listen to conference deliberations.

Minister Jim Antoine of the Northwest Territories shared the podium with Yukon Premier Pat Duncan.

Mayor John Williams of Kenai and Tom Maloney of VECO hear panelists discuss options for North Slope gas development.

Murkowski, Young, Knowles vow to fight roadless rule in Alaska forests

(Continued from page 1)

by 2004 to the low levels intended by the policy change," echoed Senator Frank Murkowski. "The implications of the policy will be immediately painful to the residents of the towns of Southeast that depend on a timber industry.

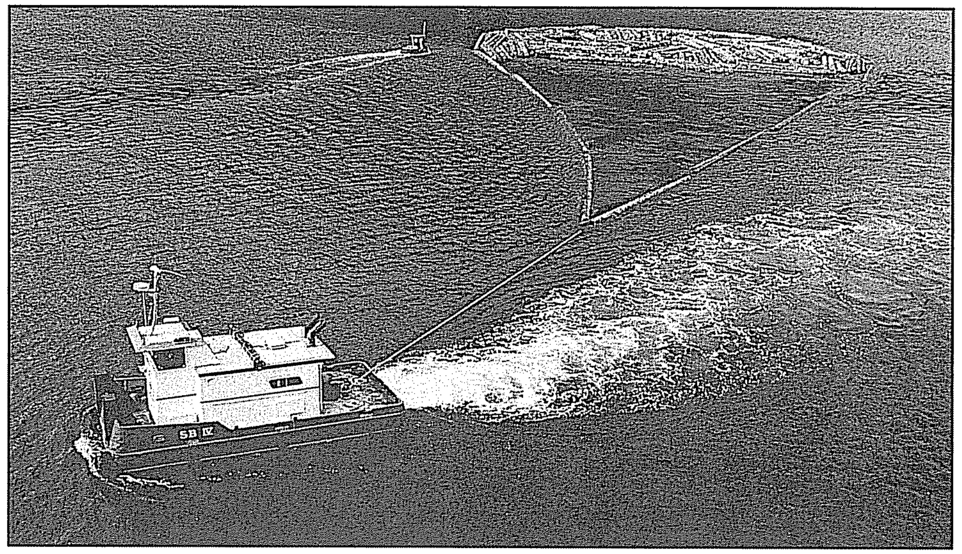
Clinton's new roadless policy forbids logging, mining and road building on more than 58 million acres of national forest lands across the nation. Combined, the closures add up to the size of several western states, including Idaho, Utah and Oregon.

"While it may make sense to protect scarce roadless areas in some Lower 48 forests where such scarcities exist, including both the Tongass and Chugach National Forests in this policy is terribly wrong and unfair," said RDC Executive Director Ken Freeman. "The recent decision to include both Alaska forests in the policy amounts to nothing short of imposing on Alaska a solution to a Lower 48 problem."

The Tongass covers 17 million acres and most of it is roadless. The Chugach's 5.5 million acres is 98 percent roadless. There is virtually no commercial logging occurring in the Chugach while less than 10 percent of the timber base in the Tongass is open to harvesting, much of it on a 200-year rotation cycle.

The forest plan governing the Tongass has already withdrawn more than half of the land previously available for logging. Additional land restrictions would only add to the job loss and economic suffering that has hit Southeast Alaska.

"What you've got is a very hard push toward no cut, zero harvest," said Jack Phelps, Executive Director of the Alaska Forest Association. "There's very little balance left in the forest – this policy would finally eliminate true multiple use management in the Tongass."



With most of the Tongass now closed to logging, thousands of jobs have been lost across the forest and Southeast Alaska's two large pulp mills have closed.

Since Congress sharply scaled back logging with passage of the Tongass Timber Reform Act in 1990, the timber industry and local communities have suffered major set backs, including the closure of two large pulp mills and the loss of several thousand jobs.

The new Tongass Land Management Plan (TLMP), which cost more than $13 million and a decade to update, sharply scaled back logging beyond the reductions which occurred under the 1990 reform act. TLMP reduced the available harvest base from 1.7 million acres to only 520,000 acres and reduced the annual harvest quota from 450 million board feet to 153 million board feet. Under the roadless policy, the land open to logging would shrink to 331,000 acres, but actual harvest is likely to take place on less than 200,000 acres. The annual harvest quota would be reduced to an estimated 50 mmbf.

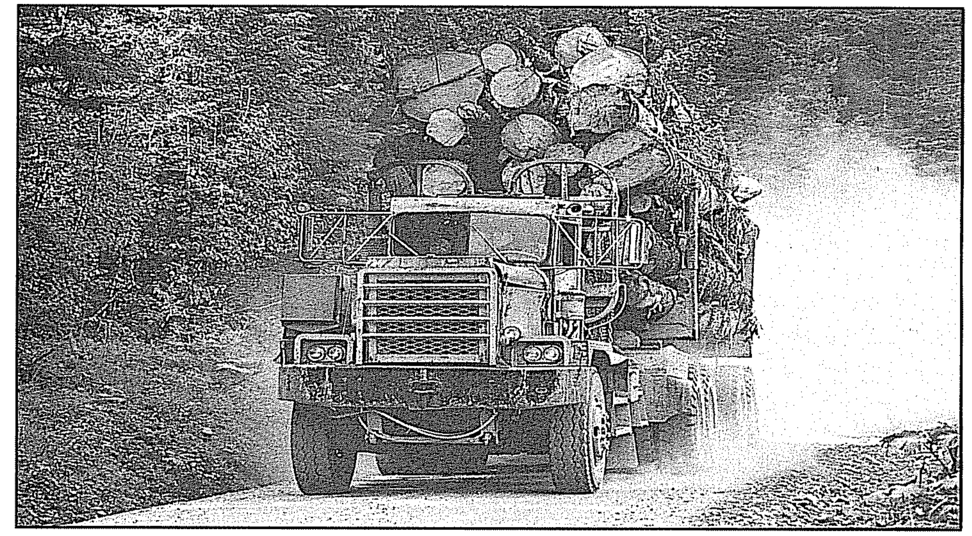
The existing manufacturing capacity of Southeast Alaska's surviving sawmills is more than 300 million board feet annually. Under the roadless policy, the nation's largest national forest would fall short of supplying the needs of a single sawmill in the region.

Roadless areas and related issues have been addressed through the new Tongass plan and up to 90 percent of the forest is now protected from timber harvesting, road building and other development.

Over the last several months, Governor Tony Knowles has communicated personally with the President and other administration officials to express his opposition to any unilateral federal edict imposing a roadless policy in Alaska, stating that such action would be a "double cross" to the integrity of the public process.

In a recent letter to Agriculture Secretary Dan Glickman, Knowles requested that both the Tongass and Chugach be excluded from the national roadless policy and that future roadless issues be addressed through each forest's planning process. He said to do otherwise would ignore the results of the land management plans, which have involved years of analysis and public input.

"At a minimum, the four-year delay in the imposition of the roadless policy in the Tongass provides time to pursue remedial action," Knowles said. The



A logging truck rolls down a narrow road. Such a site is becoming increasingly rare in a state where logging on federal lands has been sharply reduced.

Governor recommended that since the roadless policy is the product of administrative rulemaking, the same approach should be considered to modify the new policy. If necessary, the Governor said he would call on a new administration in Washington to undertake such an effort.

Knowles said he would explore all of the approaches available to his administration to modify the roadless policy, including a call from Senator Murkowski urging the state to bring a lawsuit against the policy's application to the Tongass.

Meanwhile, Murkowski and Congressman Don Young have pledged to encourage the next administration to reverse the roadless policy. Murkowski and Young have asked the U.S. General Accounting Office (GAO) to review the roadless rule under the Truth in Regulating Act of 2000. This new legislation allows the GAO to conduct an independent evaluation of the costs and benefits of economically significant regulations.

Murkowski and Young also wrote to Secretary Glickman to inform him that the next Congress would initiate a review of the roadless rule under the provisions of the Small Business Regulatory Enforcement Fairness Act because the rule would have an impact of more than $100 million on the U.S. economy.

Under the act, Congress would have 60 days after it convenes in January to vote to overturn the roadless rule. Congress would have that authority anyway, but under the act a vote could not be filibustered in the Senate. Therefore, it would require just 51 votes to overturn the rule in the Senate. The new president would need to sign off on any legislation to overturn the rule.

Murkowski, however, strongly encouraged the state to file suit to back the terms of the Alaska lands act and the "no more" clause in the 1980 law that specifically prevents the withdrawal of more than 5,000 acres in Alaska without congressional approval. He said a state suit to overturn the roadless proposal in Alaska would be an important insurance policy should efforts in Congress fail.

Concerning a possible legal challenge to the policy, Knowles said that important questions of standing to sue, ripeness, and specific injury to the state must first be examined. He emphasized that litigation is only one remedy and that other actions at the federal level, including legislation and rulemaking, should be pursued. The Governor, however, would not rule out a potential lawsuit.

Ninety-five percent of the roadless forests covered under the plan are located in 12 Western states. Both Montana and Idaho filed a lawsuit against the rule, but the court dismissed the case, finding it wasn't yet ripe since the rule has not yet been implemented. However, once the policy is imposed and damages can be demonstrated, then both states are free to re-file.

"It is reasonable to conclude that they will weigh in again," said the forest association's Jack Phelps. "When the time is right, one option that merits consideration is for Alaska to join other states in litigating against the policy."

Steller Sea lions ... *(Continued from page 1)*

Zilly lifted his ban, but fishermen are not cheering.

The North Pacific Fisheries Management Council rejected the new plan, saying its restrictions would risk lives and increase bycatch. The Council's action is only advisory.

Fishermen are angry at the loss of prime fishing grounds and what they say is a lack of scientific proof that fishing, and not vast changes in the ocean environment, was responsible for the Steller decline.

The fishing industry charged that the new biological opinion, if implemented when the new fishing season begins in January, would only serve to bring out the most painful aspects of the earlier trawl ban and even deepen the impacts. Many fishing areas will remain closed or severely restricted and new classes of fishermen, including small operators who fish with hook and line, will be affected. Moreover, the agency's plan strongly suggests that salmon, herring and other fisheries may be restricted, spreading the economic pain across the full spectrum of Alaska's fishing industry.

Senator Ted Stevens said NMFS "sorely lacks the scientific data that would justify restrictions on pollock and cod fisheries. NMFS believes that fishermen are taking too much food from the sea lions, causing them nutritional stress. The industry says it only takes a small fraction of the fish and the government theory lacks scientific proof.

Stevens said the biological opinion puts the $1 billion pollock and cod fisheries at great risk, adding that the agency's plan "is a crippling blow to the small-boat fishermen and Alaska's coastal communities." Stevens indicated it could impact more than 1,000 fishing boats.

A preliminary industry analysis shows that the opinion may have a half-billion dollar impact on Alaska's economy.

In a phone call to U.S. Commerce Secretary Norm Mineta, Governor Knowles repeated his vow to challenge the latest opinion Knowles told the Secretary that "there are ways to resolve the sea lion crisis without putting our communities in crisis."