

RESOURCE

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R E V I E W



A PERIODIC PUBLICATION OF THE RESOURCE DEVELOPMENT COUNCIL FOR ALASKA, INC.

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Alaska's North Slope not only contains North America's largest oil fields, it also holds enormous reserves of natural gas. A pipeline carrying the gas to market would create thousands of new jobs and hundreds of millions of dollars in new revenue for Alaska each year.

PROGRESS ON GAS PIPELINE

Two bills passed by Congress last month containing a package of federal incentives for an Alaska gas pipeline gave a big boost up to what could be the largest private sector project ever undertaken.

In addition, Governor Frank Murkowski advised the Alaska Legislature that ongoing negotiations with North Slope producers and Canadian pipeline companies on fiscal terms needed to advance the project may need to include the State taking an equity position in the pipeline, a role as a shipper of gas, and be willing to accept some level of the project's risk.

Dr. Pedro Van Meurs, an advisor to the State on the ongoing negotiations with potential builders of the gas pipeline, called passage of the

federal provisions a "gigantic step forward." Van Meurs said the provisions demonstrate that in order for the huge project to move forward, financial risks for those investing in it must be reduced.

The bills contain federal loan guarantees for up to 80 percent of the cost of the project, seven-year accelerated depreciation for the pipeline and an enhanced oil recovery tax credit. The bill also provides for expedited legal and regulatory reviews of the project.

The accelerated depreciation provision allows pipeline owners to write down their construction costs over seven years instead of 15 years on the Alaska portion of the pipeline. A proposed North Slope gas conditioning plant is eligible for a 15% Enhanced Oil Recovery tax credit.

The provisions expediting legal and regulatory reviews were of paramount concern to industry since they create an efficient permitting process and also lay out a framework for dispute resolution, diminishing costly delays which could negatively impact the economics of a project of such magnitude.

The regulatory provisions included in the federal legislation also clarify the status of the existing Alaska Natural Gas Transportation Act authorities and provisions for updating previous approvals.

North Slope producers BP Exploration (Alaska), ExxonMobil and ConocoPhillips called the federal provisions "a positive development" and applauded the

state's congressional delegation for its hard work and leadership in securing passage of the incentive package.

The producers are negotiating together with the State as one "sponsor group" over taxes and royalties the companies would pay over the life of the project. The State is in similar negotiations with TransCanada and is in discussions with Enbridge. In addition, the Alaska Natural Gas Development Authority and the Alaska Gasline Port Authority continue to work on their own plans for an All-Alaska gasline.

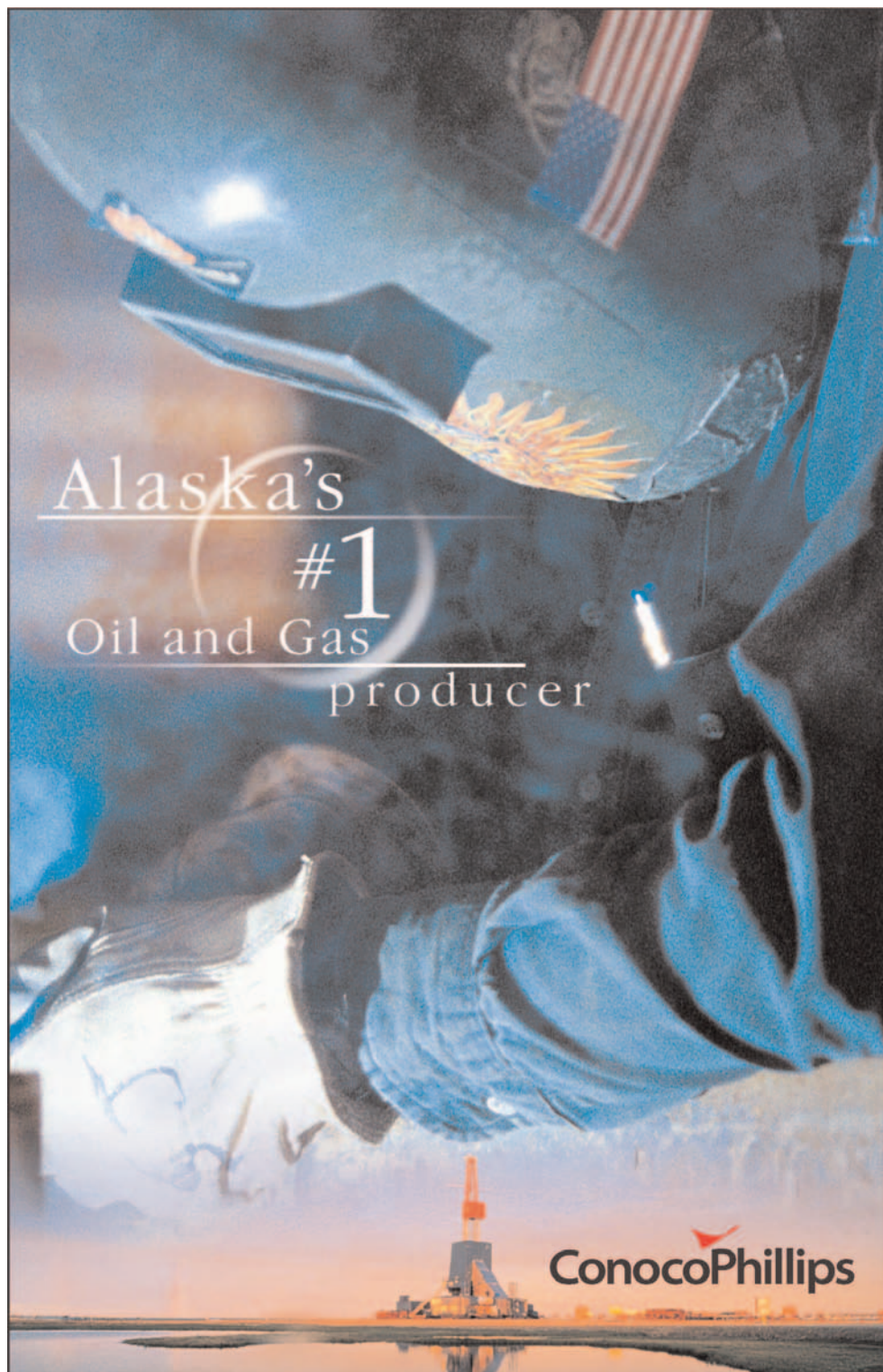
The State's Stranded Gas team is aiming to develop a final proposal to submit to the Legislature early in the com-

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of the Resource Development Council (RDC),
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development organization working to develop
Alaska's natural resources in a responsible manner
and to create a broad-based, diversified economy
while protecting and enhancing the environment.



LAND EXCHANGE WILL CREATE ECONOMIC OPPORTUNITY

On October 21, 2004, Doyon Limited, the Alaska Native regional corporation for Interior Alaska, and the U.S. Fish & Wildlife Service announced an agreement in principle regarding a land exchange within the boundaries of the Yukon Flats National Wildlife Refuge.

When finalized, the land exchange will create significant economic opportunities for Doyon and others in the region without compromising the Fish & Wildlife Service's mission of fish and wildlife habitat protection. More importantly, it demonstrates that flexibility from federal departments when working within the Alaska National Interest Lands Conservation Act (ANILCA) can lead to both improved economic opportunities and important environmental protections.

Doyon owns 1.25 million acres within the 11 million acre Yukon Flats Refuge. The Fish & Wildlife Service calculates the net effect of the trade to be an increase to the Yukon Flats Refuge of 98,000 acres of quality fish and wildlife habitat. Meanwhile, Doyon will gain access to lands that may hold developable oil and gas resources. Only 80 miles separates this block of land from the Trans Alaska Pipeline System.

The draft agreement has four components; 1) Doyon will receive 110,000 acres of surface/subsurface land with oil and gas potential that surrounds some of the company's existing acreage within the refuge; 2) The Fish & Wildlife Service will obtain 150,000 acres of Doyon land elsewhere in the refuge; 3) Doyon will give up 58,000 acres of land within the refuge to which the company is entitled but has yet to select; and 4) Doyon will take title to 96,000 acres of subsurface estate within the refuge. This land will be in a "halo" surrounding the company's core lands and will be accessible only through directional drilling. No permanent structures will be allowed on the surface.

ANILCA created a patchwork of land ownership and management regimes in Alaska. Overall 148 million acres in Alaska have been designated federal parks, wildlife refuges or monuments. Of this total, 58 million acres are federally-designated wilderness areas. Beyond these federal designations, Alaska has created the largest state park system in the

Union.

With so much of Alaska permanently protected from development, resource development opportunities are limited. The state's lack of infrastructure and high cost environment also pose significant obstacles to economic growth. Fortunately, Alaska's Native regional corporations, created by the Alaska Native Claims Settlement Act (ANCSA) and endowed with 44 million acres of land within the state, continue to overcome these challenges.

The proposed trade between Doyon and the Fish & Wildlife Service represents a win-win situation. Doyon is able to consolidate its holdings within the refuge and focus on the potential development of energy resources. Meanwhile, the Fish & Wildlife Service is able to reduce the total amount of privately held land in the refuge and limit possible development activities to a single core area.

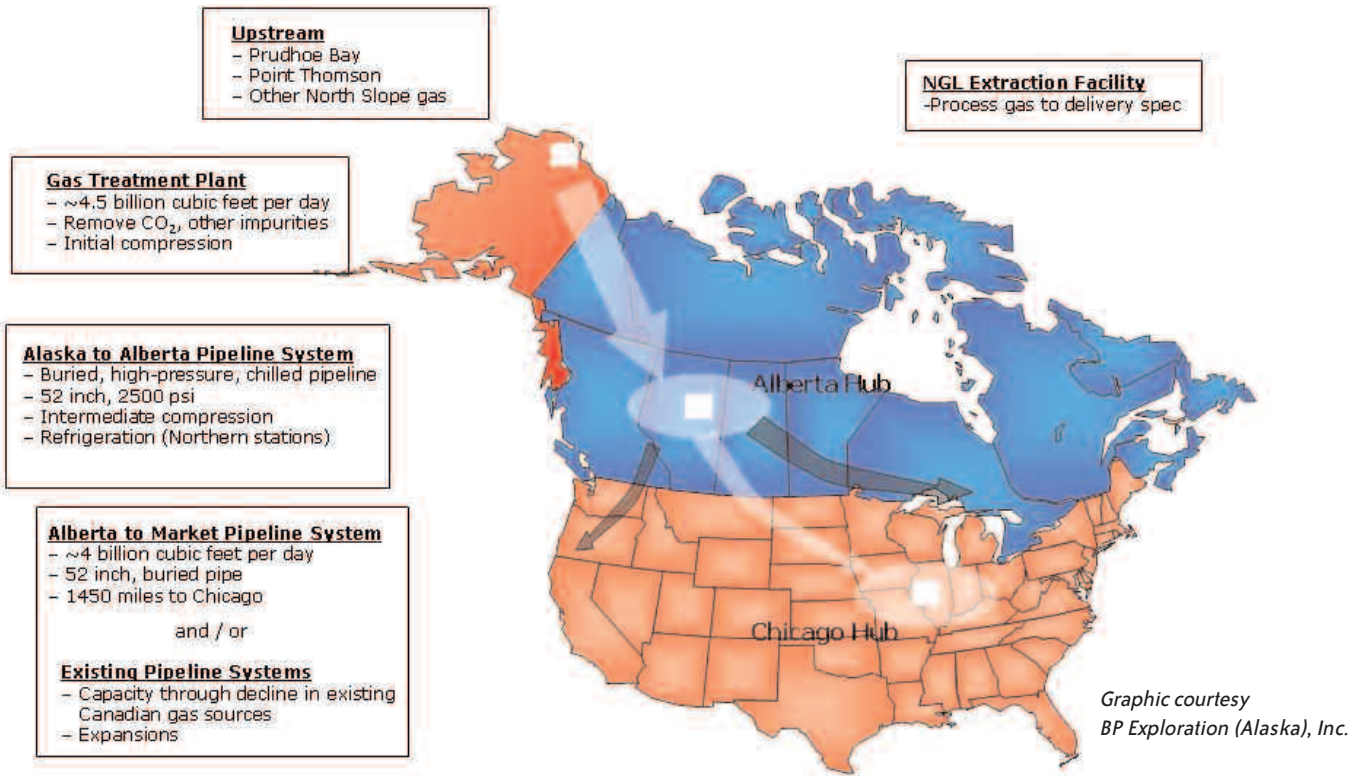
"When finalized, the land exchange will create significant economic opportunities for Doyon and others in the region without compromising the Fish & Wildlife Service's mission of fish and wildlife habitat protection. More importantly, it demonstrates that flexibility from federal departments when working within the Alaska National Interest Lands Conservation Act (ANILCA) can lead to both improved economic opportunities and important environmental protections."

Senator Ted Stevens deserves credit for helping facilitate the proposed deal. Negotiations have been ongoing for two years between Doyon and the Fish & Wildlife Service. They are likely to be finalized within the next few months, thanks in part to a \$750,000 dollar appropriation Senator Stevens engineered to help pay for land appraisals and some other costs.

As the state's principal private-land owners, Alaska's Native corporations will continue to identify and pursue significant economic development opportunities. However, without cooperation from federal management agencies, such as the Fish & Wildlife Service, many of these prospective developments will be impossible to advance due to the complexity of land ownership in Alaska. Our congressional delegation will play a key role in future projects by providing both financial support and policy guidance to the federal agencies charged with managing much of Alaska.

Congratulations to Doyon and the Fish & Wildlife Service for their work to bring the proposed Yukon Flats land exchange to fruition. Let's hope it sets a precedent for similar exchanges in the future. RDC and its members stand ready to support the proposed trade during the upcoming public comment period. Given the chance, Alaskans will continue to prove that economic development and environmental protection is not a zero-sum game.

Alaska North Slope Gas Pipeline Project



GOVERNOR: STATE SHOULD CONSIDER TAKING EQUITY POSITION IN GAS PIPELINE AND BE WILLING TO SHARE RISK

(Continued from page 1)

ing session. Should the Legislature adopt the fiscal contract, it would set the stage for engineering, planning and permitting.

Van Muers told the Legislative Budget and Audit Committee last month that the federal incentives were necessary to encourage construction and diminish overall financial risks. He noted Alaska's competitors, countries with stranded gas resources, are getting their gas deposits developed and to markets by reducing a project's risks. He said Alaska's

competitors are moving forward and doing quite well while the State is not yet out of the starting gate.

The key state advisor outlined several risks unique to the Alaska gas project.

First, the project is mammoth. At \$15 to \$20 billion, Alaska's project is three times the size of the next largest in the world. The project's gigantic size is a risk by itself.

Uncertainty surrounding the future direction of natural gas prices presents yet another risk and potential cost overruns add to the downside. North America's com-

plex regulatory environment is another challenge. Van Muers said competitors don't have such regulatory risk.

"To get this project going requires unique solutions," Van Muers said. "It won't go by itself."

With passage of the federal provisions, Van Muers told legislators that the onus is now on Alaska. "Now we are the only ones standing in the way of this project," he said.

Prior to introducing Van Muers' to the legislative committee, Governor Murkowski asked legislators to discuss with their constituents the

concept of State equity participation and risk sharing in the gas pipeline. An equity position could include both ownership of the pipeline, as well as a role as a shipper of gas. While both could lead to significantly higher government revenues, the State would take on some of the project's risk.

"We may have missed the boat with the trans-Alaska oil pipeline," Murkowski said. "We have stood on the sidelines for nearly 30 years watching a lot of revenue flow to those who were willing to take the risk."

By going to the Legislature now, Murkowski said he didn't want the administration's team to spend months negotiating a contract with equity and shippers' risk incorporated into the document only to have the Legislature tell him that the concepts are not acceptable.

The Alaska Stranded Gas Development Act requires the administration to bring the Legislature a proposed contract. Following legislative and public input, the Legislature will either approve or disapprove that proposal.

The governor warned delay would seriously erode Alaska's chances at getting the line built. He explained that imported liquefied natural gas is the State's chief competitor and America would be better off with a stable, domestic supply of natural gas, instead of relying on overseas supplies.

"I believe any position negotiated by the State must reward early construction and penalize delay," Murkowski said. "Our goal is an in-



ConocoPhillips, BP, ExxonMobil and others are actively exploring several options for commercializing North Slope gas. Above is the 800-mile trans-Alaska oil pipeline which begins at Pump Station 1 on the southern edge of the Prudhoe Bay field and stretches to the ice-free port of Valdez. The Prudhoe Bay field itself contains 24 trillion cubic feet of natural gas.

service date of 2012."

"It has become clear to me that the most likely path for starting construction soon will require the State to take an ownership position in the project and bear a certain amount of shippers' risk," Murkowski said. "This equity interest could involve

offsets in respect to taxes, royalties or other obligations."

The governor said the State should be willing to risk downside potential in return for the upside potential and the certainty that construction on the project will begin soon.

"I personally think the potential risk is worth the reward," Murkowski said.

The governor explained that gas markets in the Lower 48 are likely to remain strong for decades as gas is the favored fuel for heating and electrical generation. The governor also noted that through the State's participation and assumption of risk, "we make the project both safer and more competitive for the other participants. We may get a gas line project started this way and no other way. And that is important if our gas is going to compete with increased LNG imports."

He said sharing investment cost lowers risk for other participants and provides for a high rate of return that is necessary in view of other worldwide opportunities for investment in energy projects.

The producers, TransCanada and Enbridge will participate in an Alaska gas pipeline update at RDC's conference November 18.



With nearly 35 trillion cubic feet of natural gas already discovered, Alaska's North Slope could supply North American markets for decades. North Slope producers believe there is sufficient gas to support gas sales of two to four billion cubic feet per day for more than 30 years. Above is the Central Gas Facility at Prudhoe Bay, the largest gas-handling plant in the world. The facility processes 8 billion cubic feet per day before the gas is reinjected back into the reservoir.

ALASKA **COMPETING GLOBALLY FOR INDUSTRY INVESTMENT**

RESOURCES 2005

Is Alaska a good place to invest for your industry? What is Alaska's global position in attracting capital for new projects and infrastructure development? Why does it matter? What can Alaska do to improve its competitive ranking? What are Alaska competitors doing to attract industry investment in their regions?

Alaska Resources 2005 will seek to answer these questions and explore how Alaska can strengthen its competitive position. RDC's Silver Anniversary conference will also feature timely updates on late-breaking issues, projects and the resource sectors driving the economy.

The two-day conference will be held Thursday and Friday, November 18-19, at the Sheraton Anchorage Hotel. The event has attracted more than 90 corporate sponsors and is expected to draw 400 registrants from across Alaska, the Lower 48 and Canada.

To register for the conference, visit RDC's website at www.akrdc.org or call 907-276-0700. Updates to the agenda are posted weekly.

- 2:45 **Gourmet Break**
 3:15 **The Independents: Where Does Alaska Fit In Their Portfolio and Why?**
 Ken Sheffield, President, Pioneer Natural Resources
 Additional participants to be announced
 3:45 **Alaska Gas: An Update**
 Tony Palmer, Vice President, Alaska Development, TransCanada Pipelines Limited
 John Carruthers, Vice President, Northern Development, Enbridge, Inc.,
 Joe Marushack, Vice President, Alaska North Slope Gas Development, ConocoPhillips Alaska, Inc.
 Ken Konrad, Senior Vice President, Alaska Gas, BP Exploration (Alaska), Inc.
 4:45 **VIP Networking Reception At Josephine's**

Thursday – November 18th

- 7:00 Registration/Check-In/Exhibits Open
 8:00 **Is Alaska A Good Place To Invest?**
 Oil – Chuck Pierce, President, Alaska Oil & Gas Association
 Mining – Stan Dempsey, Chairman, Royal Gold
 Fishing – Steve Minor, Managing Partner, Waterfront Associates
 Timber – Jim Calvin, Managing Partner, The McDowell Group
 10:00 Gourmet Break
 10:30 **How Local Communities Are Maximizing Their Competitive Edge In Attracting New Business**
 Dale Bagley, Mayor, Kenai Peninsula Borough
 Jim Whitaker, Mayor, Fairbanks North Star Borough
 Noon **Keynote Luncheon: What Government Is Doing To Increase Industry Investment In Alaska**
 Governor Frank Murkowski
 1:30 **What An Alaska Competitor Is Doing To Nurture The Golden Goose**
 David Molinski, Deputy Energy Minister, B.C.
 2:00 **Alaska Oil: New Investments, Future Prospects**
 Jim Bowles, President, ConocoPhillips Alaska, Inc.
 Angus Walker, Commercial Vice President, BP Exploration (Alaska), Inc.
 John Barnes, Alaska Business Unit Manager, Marathon Oil Company

Friday – November 19th

- 7:30 Eye Opener Reception In Exhibit Area
 8:30 **Value-Added Industry: New Initiatives In Resource Development**
 Oil and Gas – Bruce Waterman, Senior Vice President & CFO, Agrium, Inc.
 Jim Boltz, COO, Petro Star, Inc.
 Forest Products – George Woodbury, President, Alaska Forest Association
 Fishing – Senator Ben Stevens, Chair, Alaska Fisheries Marketing Board
 9:45 Break
 10:15 **Maximizing Alaska's Competitive Edge In Tourism**
 Ron Peck, President, Alaska Travel Industry Association
 Jim Stratton, Alaska Regional Director, National Parks Conservation Association
 Bob Wysocki, President and CEO, Huna Totem Corporation
 Noon **Keynote Luncheon: Building Alaska 2005 And Beyond – Issues And New Opportunities**
 Jim Sampson, President, Alaska AFL-CIO
 Richard Cattnach, Executive Director, Associated General Contractors
 1:00 Grand Raffle Drawing

AMEREF Fundraiser, Wednesday, Nov. 17th, Fly By Night Club, 8 p.m., Tickets \$25, RSVP 907-279-SPAM

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RDC 2004 COMMUNITY OUTREACH TOUR

FAIRBANKS

The RDC Board of Directors conducted its annual community outreach trip September 30 through October 3. This year's trip focused on the Fairbanks area and included visits to the Fort Knox Gold Mine, the Flint Hills Refinery in North Pole, Doyon Limited corporate offices, the University of Alaska and Usibelli Coal Mine in Healy. More than 20 RDC representatives enjoyed the generosity and hospitality of the Fairbanks business community. The trip opened with a special dinner at the new Westmark Hotel. The seventy guests included local members of RDC, as well as the board members of the Fairbanks Chamber of Commerce and the Fairbanks Industrial Development Corporation. While in Fairbanks, RDC also received a progress report on the Pogo Gold Mine from Karl Hanneman of Teck-Pogo.



RDC Board members pose on a new pedestrian bridge over the Chena River in downtown Fairbanks. New resource development projects and commercial construction are benefiting the local economy.



At upper left, the Usibelli Coal Mine's dragline, "Ace-In-The-Hole," is primarily used to remove overburden. Above, Chief Engineer Alan Renshaw, from inside the bucket of the dragline, describes operations. Below, the RDC board and guests pose inside the 33-cubic yard bucket.



Usibelli Chief Engineer Alan Renshaw points out exposed coal seams to John Ringstad. The mine will produce 1.3 million tons of coal this year with 800,000 tons used in Interior Alaska markets. The remainder is shipped to South Korea.





Located 25 miles northeast of Fairbanks, Kinross Gold Corporation's Fort Knox Mine has been the largest gold producer in Alaska since its inception in 1997. Above, a Kinross guide discusses the open pit mining process with RDC board members.



RDC President John Shively is dwarfed by a huge tire on a haul truck at Ft. Knox.



RDC board member Scott Thorson, left, is briefed on mill operations. After the ore is removed from the open pit, it is taken to the "crusher" where large boulders are crushed in seconds. A half-mile conveyor then moves it to the mill for processing.



University of Alaska Fairbanks Chancellor Steve Jones shows RDC board members a high resolution image of Alaska wildfires taken from space. The image was so clear that the runways at the Anchorage airport could be seen in the large photo.



RDC board members, wearing 3-D goggles, receive a virtual representation of a tsunami in the Discovery Lab at the Fairbanks campus' Arctic Region Supercomputing Center. The center provides computational resources to researchers tackling some of the arctic's greatest challenges, including global climate change, permafrost, ocean circulation, sea ice and tsunami research.



Jim Mery, center, shows Jeff Foley and Rick Rogers the Doyon atrium in Fairbanks.



RDC Board member Sharon Anderson at the Usibelli Coal Mine.



CHANGE AND RISK

"If doing nothing is the order of the day, can we predict that there is no risk? I don't believe we can. By choosing to do nothing, we may limit some environmental risks, but we most surely have increased economic risk for ourselves and, perhaps, for future generations."

In my last column I discussed risk and predictability and ended with the thought that no matter how hard we try we cannot totally eliminate risk, nor can we predict future events with anything approaching 100% certainty. What I want to discuss in this column is the relationship between risk and change.

There are some that think the way to avoid risk is to do nothing. Their philosophy is that change, particularly change brought about by resource development projects, is too risky. I sometimes wonder if the Midwest would have any agriculture industry to speak of if that industry had to attempt to develop under the regulatory systems in place today.

If doing nothing is the order of the day, can we predict that there is no risk? I don't believe we can. By choosing to do nothing, we may limit some environmental risks, but we most surely have increased economic risk for ourselves and, perhaps, for future generations.

That is not to say that we should not attempt to limit risk. It is in the interest of everyone to reduce, financial, environmental, health, and safety risks, just to name a few. Using good data, good science and, occasionally, even a little common sense can help us improve the stewardship of natural, financial and social resources.

There are some places where no change is the order of the day. Areas designated by Congress as National Wilderness would fall into this category.

Other places, such as national and state parks, should certainly have high standards when it comes to allowing or encouraging change, but even here some change is necessary and that change will involve some risk.

Should we be telling people they can't be visiting parks the size of some states because there are only one or two dirt roads into them? Or can we work to find reasonable ways to share these parks with more of the people they were supposedly set aside for? Some would say "No!" They fear for the wildlife.

And yet, if the moose and bear in the Anchorage bowl and the caribou on the North Slope are reliable indicators, wildlife would seem to be more adaptable to the risk of human activity than "intuitive science" would lead us to believe.

To me, timber is the most frustrating of our resources when it comes to people fighting

change. Can we find a way to harvest timber in Alaska on any kind of long-term basis? It doesn't seem so. Many Alaskans oppose timber harvest, particularly if it is anywhere near where they live. Some of these same people promote the need for sustainable development.

Managed properly, timber would seem to be rivaled only by fish in its ability to be sustainable. It might even be more sustainable if we could introduce new species of trees that might grow faster and even provide better wildlife habitat. For instance, pine is a much better food for moose than the indigestible spruce we find throughout Southcentral Alaska.

Of course, the spruce is indigestible only to the moose, but not the beetles. Since we lost the opportunity to harvest many of these trees while they were alive, are we now missing another opportunity by not replacing them with something else?

As the spruce bark beetle has proven, even when we choose to do nothing, change can take place, and that change can have risks - such as the fire danger now faced by many homeowners who live in and around dead and dying spruce forests.

There is no question that the rate of change we face in our daily lives has increased dramatically. Technology changes before we buy it. How many of us use even half of the options available to us on our cell phones or our computers? How many are like me, and can't even figure out what half the options are?

Is this kind of change one of the driving forces behind many people being less willing to accept change when it comes to natural resource development? Certainly, a person living in one of the pulsating metropolitan areas in our country might find it pretty easy to wish for time to stand still in Alaska. What many of these people do not understand is that their lifestyle is dependent on the consumption of massive amounts of natural resources.

We in Alaska can and should be producing some of those resources. But to do so will require some change and some risk. We can be smarter about change, but we should not be afraid of it. We can limit risk, but we cannot eliminate it. My new bumper sticker - "Risk change - for a brighter future."

RDC NEWS DIGEST

RDC, Groups Host Knowles, Murkowski Debate



In a sold-out mid-October debate in Anchorage sponsored by the Alaska Forest Association, RDC, the Alliance and the Alaska Miners Association, Senator Lisa Murkowski and former Governor Tony Knowles fielded questions from moderator John Sturgeon concerning oil, gas, mining, timber, tourism and fishing issues. Murkowski and Knowles diverged on the best strategy to open ANWR to oil drilling and on the significance of the natural gas pipeline incentives recently passed by Congress. The candidates also outlined how they would work with the opposite party controlling a polarized Congress and White House.

Arctic Economic Summit Set For Barrow

The 2005 Arctic Economic Development Summit will be held January 31st to February 2nd in Barrow.

Hosted by the North Slope Borough and the Northwest Arctic Borough, the theme of the 2005 Summit is "Strengthening our relationships to strengthening our economies."

The Summit's objective is to strengthen relationships between the two arctic regions while exploring new opportunities to foster sustainable economic development. The 2005 Summit will emphasize:

- Continued exploration of large-scale economic opportunities;
- Improving upon and providing opportunities for public and private business partnerships;
- Small business development;
- Promoting the growth of cottage industries;
- Coordinating political efforts on a state and federal level;
- Creating accountability at the local level for the economic success of each community within the region; and,
- Providing the resources and tools necessary to initiate community discussions and action leading to strengthening local economies.

The two boroughs anticipate over 200 participants from local communities, regional, state and federal organizations and government entities.

Environmentalists Challenge Bristol Bay Exploration License

The Environmental law firm, Trustees for Alaska, has filed a protest with the State of Alaska to stop the clock on a Bristol Bay basin exploration license to be issued to a company owned by Native elders from the region.

The challenge to the exploration license due Bristol Bay Shores LLC, the company formed by the Native elders to eradicate poverty brought on by the decline of fisheries in the Bristol Bay region, has already resulted in the loss of one investor.

The filing against the license has caused frustration and anger among Bristol Bay residents, according to George Shade, President of Bristol Shores.

"We're not taking it sitting down," Shade told Petroleum News last month. "The impact on these remote areas is more severe than these guys realize ... this is flat discrimination ... this is probably one of the biggest paintball attacks I've ever seen."

Both Shade and Jere Allan, President of the Bay Group, view the filing as harassment. The Bay Group has been seeking private investors to fund gas exploration in the license area. Allan said one investor has pulled out as a result of the Trustees' filing.

Shade said that the indigenous people around Bristol Bay understand the environmental issues of the region and that they pay much attention to protecting the environment. He said all of the owners of Bristol Shores have been or are fishermen.

"They are very concerned about the environmental aspects of the the operation and protecting migration routes of the animals, as well as the migration of the salmon," Shade said.

The final finding for the exploration license is now on hold pending reconsideration by the State.

Trustees said that its clients concerns center on the depth of the state's analysis of the potential impacts of proposed development. Trustees listed its clients as the Alaska Coalition, Cascadia Wildlands Project, Pamela A. Miller, and the Northern Alaska Environmental Center.

ON THE WEB

WWW.AKRDC.ORG

• RDC Silver Anniversary Conference, Nov. 18-19th
www.akrdc.org/membership/events/conference/2004/

• Recent RDC Action Alert On New Roadless Rule Proposal – Comment Deadline Extended To November 15th
www.akrdc.org/alerts/

• AMEREF Announces New State Coordinator
www.ameref.org/coordinator.html

• RDC Fall Breakfast Meeting Schedule & Links To Presentations
www.akrdc.org/membership/events/breakfast/

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