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Red Dog

Benefits To Alaska From The Ground Up

**MINING SHUTDOWN
INITIATIVES THREATEN
ALASKA'S MINING
INDUSTRY, A
CORNERSTONE
OF ALASKA'S
ECONOMY**

The so-called clean water measures that could be on the statewide ballot this fall are “dangerous and deceptive initiatives” that Alaskans cannot afford, according to a key executive with a major Alaska Native corporation.

Speaking before a packed RDC breakfast meeting in Anchorage last month, Rosie Barr, Resources Manager for NANA Regional Corporation, spoke out strongly against the initiatives while pointing to the many economic benefits mining has brought to Northwest Alaska.

Barr believes her corporation’s experience in developing the world’s largest zinc producer on its land in Northwest Alaska is a prime example of how a rejuvenated mining industry can become a cornerstone of the Alaska economy while coexisting with the environment and the local subsistence lifestyle.

The Red Dog Mine has provided an economic foundation to the Northwest

Arctic Borough that supports jobs and a local government revenue stream that enables residents in the region to become more self-reliant, Barr said. The mine has injected a half billion dollars into the NANA region.

When Congress authorized the state and Native corporations to make land selections, many of the decisions were based on natural resource potential, Barr explained. That was not necessarily the case for NANA, which made the majority of its land selections based on subsistence use patterns and core village areas.

At the time the Alaska Native Claims Settlement Act was passed, several mineral resource areas were known to exist in the region, an area roughly the size of

Indiana and home to 6,500 residents. In 1980, NANA chose a 120-square-mile parcel, which included the Red Dog deposit because NANA leaders saw Red Dog as a means of developing a sustainable economy within the region.

A number of meetings were held and shareholders recognized the need for a cash economy because of the increased cost of living in a modern society. “Our shareholders also wanted to ensure that

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Rosie Barr

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The Resource Review is the official periodic publication of the Resource Development Council (RDC), Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in a responsible manner and to create a broad-based, diversified economy while protecting and enhancing the environment.



OUTDOOR MERCHANTS STAND AGAINST PERMITTING PROCESS FOR PEBBLE PROJECT – WHAT’S NEXT?

An ad opposing the Pebble Project recently ran in many newspapers throughout the state. The ad was sponsored by the Renewable Resources Coalition, the same group that spearheaded the so called “clean water initiative” which, if passed, would mean an end to mining in Alaska.

The ad highlighted logos from many national fish tackle, equipment, and clothing companies, all who have signed on in opposition to Pebble. Some of these companies who signed on include L.L. Bean, Orvis, Patagonia, G. Loomis, Sage, Oakley, and close to one hundred others.

The ad got me thinking. I wonder why they would be willing to endorse such an ad when the very same companies rely on the products a mine such as Pebble would produce. Mined materials are vital to the production of fishing hooks, waders, sunglasses, boats, and basically everything else these companies sell.

Where do they expect to get the raw materials to make their products? Here or in third world nations? If we choose the latter, high paying jobs will leave Alaska and fewer people will be able to afford to buy products from these companies. If we truly are thinking globally, these companies should consider the consequences of third world natural resource development where environmental oversight lags compared with Alaska.

If these companies are expressing their opposition to Pebble, what’s to stop them from opposing oil and gas leasing in Bristol Bay, minimal logging in the Tongass National Forest, or any other responsible resource development project in Alaska?

Nobody wants to protect Alaska more than Alaskans. However, there is an inherent naiveté amongst lower 48ers. Our permitting process is second to none and with Governor Palin’s recent transfer of the Habitat Division back to the

Department of Fish and Game, many of the fears that may have existed should be relieved.

These companies clearly feel they need to protect Alaskans from themselves. Unfortunately, they apparently don’t care about the ramifications to Alaskans of shutting down all of our economic opportunities. They don’t believe mining and protecting fish habitat can occur simultaneously. The example highlighted in this newsletter about NANA and the Red Dog mine proves we can, and do, do it right here in Alaska.

To date, there has not been any formal mine proposed. However, the land where Pebble is located is state land, designated for mining in state land use planning documents. The companies involved have spent hundreds of millions of dollars in exploration.

If and when it does move forward, the National Environmental Policy Act and the state permitting process will kick in and assure that the only way a mine can move forward is if it can protect the existing subsistence, sport, and commercial fisheries resources.

RDC firmly believes that companies such as the Pebble Partnership should be given the opportunity to apply for their permits and prove they can responsibly develop our natural resources. If they can’t show they can live up to the intense scrutiny of the permitting process, the project will not move forward. However, support for this process is imperative to Pebble, and indeed all future opportunities in this state.

All in all, the RDC membership and Alaskans in general, spend millions of dollars with these companies each year enjoying the outdoors. RDC members purchase expensive fishing rods, reels, and vests, top of the line tackle and flies, rifles, sunglasses, boats, trips, and other items from these companies. If these companies are opposing our rights to responsibly make a living, I think we should seriously consider who we are doing business with as well.

“If these companies are expressing their opposition to Pebble, what’s to stop them from opposing oil and gas leasing in Bristol Bay, minimal logging in the Tongass National Forest, or any other responsible resource development project in Alaska?”

COMPANIES OPPOSING THE PROCESS FOR THE PEBBLE PARTNERSHIP

Abel Quality Products	Dan Bailey	Guideline	Loon Outdoors	Redington	TFO Fly rods
AEG Media	Diamondback	Hardy Alnwick England	LOOP Fly Tackle & Adventures	Renzetti	The Drake
Airflo Flylines	Dr. Slick Co	Hat Tail Headwear	March Brown Limited	Rio	The Fly Fishing Show
Albright	Echo	Hatch	Mustad	Rising	The Fly Shop
American Angler Magazine	Ex Officio	HMH	Nautilus	RO Drift Boats	The Waterworks Lamson
American Fly Fishing Trade Association	Fetha Styx	Islander Reels	Oakley Eyewear	Sage	Thomas & Thomas
Boss Tin	Filson	Izaak Walton League	Orvis	Saltwater Fly Fishing Magazine	Tibor Reels
Bruer	Fishing with Cliff			Scientific Anglers	Trout Unlimited
Brunton	Fishpond			Sierra	Turneffe Flats
Carbon Flybox Co.	Fly Tyer Magazine			Scott Fly Rods	Umpqua Feather Merchants
Castaway	Fly Water Travel LLC			7 Days	Van Staal
Chota Outdoor Gear	Frontiers			Shallow Water Fishing Expo	Vosseler Pro Fly Fishing
Clackacraft Drift Boats	FS Media			Simms	Wapsi Fly, Inc.
Clear Creek	G. Loomis			Smith Optics	William Joseph
Cloud Veil	Galvan Fly Reels			Snowbee	Wind River Gesr
CNDSPY USA	Gamakatsu			Southwest Fly Fishing	Yellow Dog Flyfishing Adventures
Cortland	Gamma			Spirit River Inc.	
Costa Del Mar	Great Waters Fly Fishing Expo			St. Croix	
	Greys			Stream Works	
		Jim Teeny Incorporated	Outcast Sporting Gear		
		Kaenon Eyewear	Partridge		
		Korkers	Patagonia		
		L.L. Bean	R.L. Winston Rod Co.		
		Lamiglas	REC Components		

“If these companies are opposing our rights to responsibly make a living, I think we should seriously consider who we are doing business with as well.”

INITIATIVES COULD END LARGE-SCALE MINING IN ALASKA

RED DOG MINE IS CORNERSTONE OF NORTHWEST ALASKA ECONOMY, NANA DEFENDS RECORD

(Continued from page 1)

our land and subsistence resources were protected as they are so critical to our cultural well being,” Barr said.

In 1980, NANA’s 4,400 shareholders approved mining and Congress gave the green light to the land selections at Red Dog.

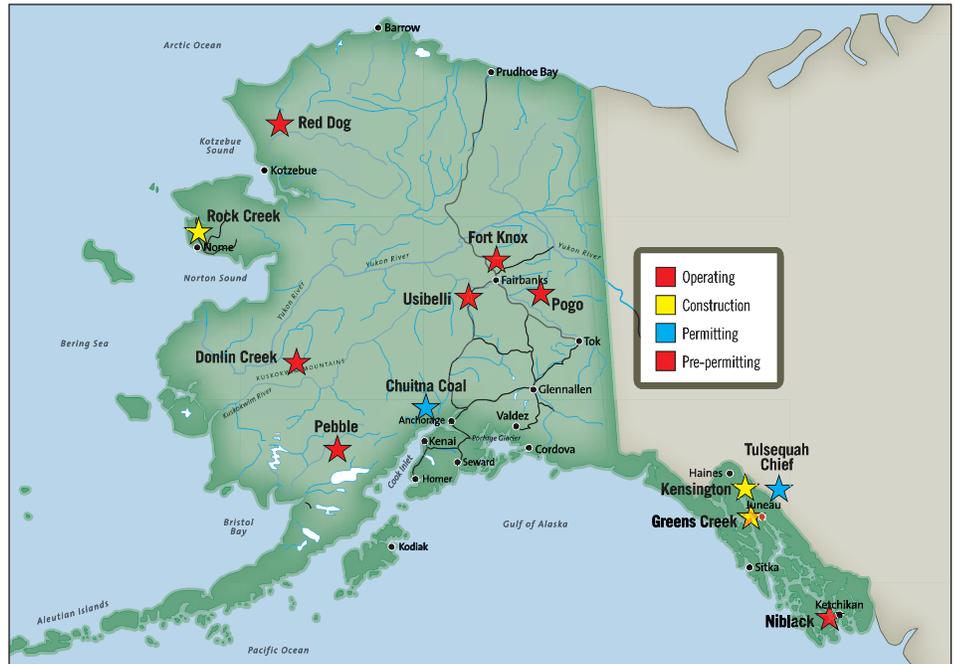
“For the Inupiaq people of Northwest Alaska, it was a defining moment that has brought so many positive benefits to our corner of the state,” Barr said. She noted there are 11 villages in the region and 90 percent of the inhabitants are Inupiaq, many of which rely on a traditional subsistence lifestyle.

“Our shareholders are not strangers who merely hold paper stock certificates; they are our friends, our neighbors and our relatives,” Barr said. “Our values are evident in the many projects we undertake, such as the preservation of our culture and language.”

Barr pointed out mining has resulted in stronger local economies in rural Alaska, more self-reliant communities, educational resources and opportunities, and good jobs that allow residents to stay in villages and continue their subsistence way of life.

In 1982, NANA entered into an agreement with Cominco (now TeckCominco) to finance, construct and operate Red Dog, 90 miles northeast of Kotzebue and 52 miles east of its port on the Chukchi Sea.

“Overall, the goal of the agreement is



Two mining shutdown initiatives have been introduced by an anti-mining coalition and may appear on the statewide ballot this fall. Under the guise of ‘clean water’ petitions, these initiatives would devastate the economy of large parts of Alaska by shutting down existing and future mining operations.

to create lasting, skilled jobs for NANA shareholders, provide opportunities for NANA’s youth, and act as a catalyst for regional economic benefit without infringing upon the Inupiat culture and subsistence way of life,” Barr said. The agreement also called for the formation of a subsistence committee comprised of local hunters from the communities of Kivalina and Noatak. This committee provides valuable insight to the Red Dog Management Committee, which oversees the operations at the Red Dog Mine and consists of members representing NANA and TeckCominco.

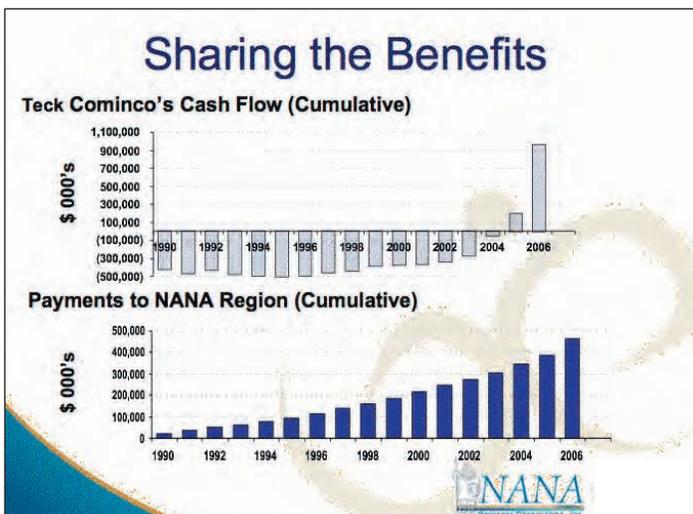
“It’s a good thing that NANA and TeckCominco had a long-term investment horizon,” Barr said. She explained that Red Dog began with a \$300 million capital investment, which grew over the years by another half a

billion dollars. With interest, the amount grew to over \$1 billion dollars. The sum of capital and operating profits and losses only turned positive in 2005 – 15 years after start-up.

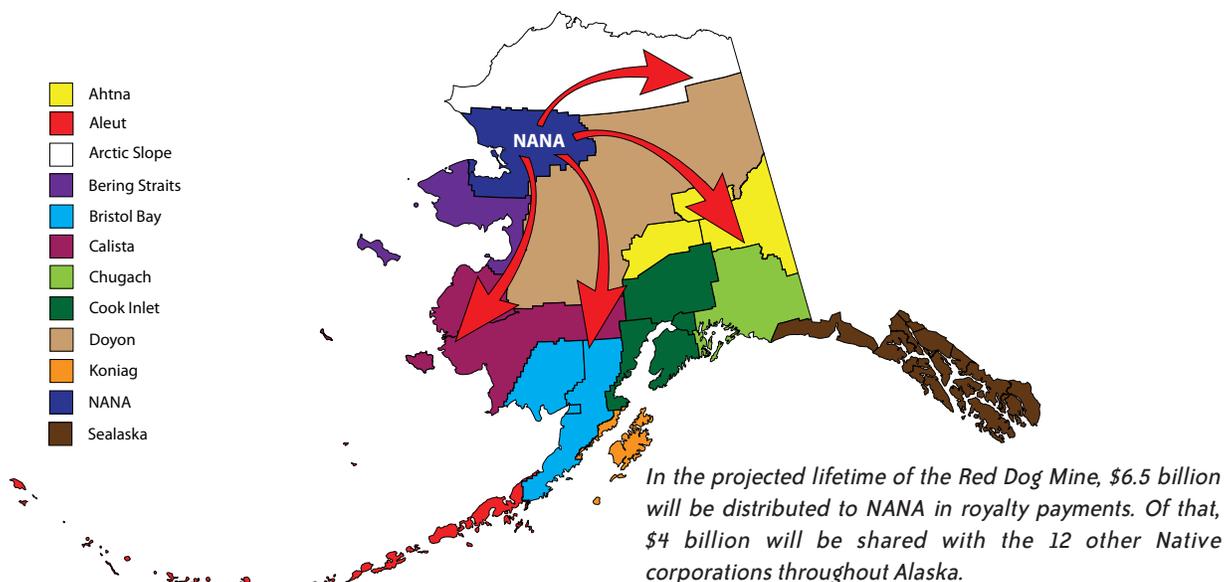
“With today’s high commodity prices, it now looks like we made a brilliant investment, but Red Dog suffered years of enormous losses,” Barr said.

Even during those record losses, TeckCominco paid annual royalties to the NANA region. NANA has received total royalties of approximately \$170 million since the mine began operation. Total payments to the NANA region, including payments to the Northwest Arctic Borough, shareholder salaries, NANA royalties and NANA contracts at the mine has been about a half billion dollars since start-up in 1989.

The Northwest Arctic Borough has collected \$64 million in payments from the mine in lieu of taxes through 2006. The estimated payment for 2007 is \$10.8 million. Red Dog is the sole taxpayer for the region as no property taxes are paid by any homeowner in the borough. Because of Red Dog, the borough is able to issue bonds to build new schools.



NANA SHARES RED DOG PROFITS WITH ALL OF ALASKA



The latest school under construction is in Noatak, where the existing school was at 250 percent over capacity.

Today, the mine provides 60 percent of the borough's budget. Since the beginning of production, the mine has hired over 1,100 NANA shareholders and has paid out over \$223 million in salaries to shareholders.

NANA's royalty has a far-reaching impact across Alaska. Under the terms of the Native claims settlement act, 62 percent is distributed to the other Native village and regional corporations. Of the approximately \$58.1 million NANA received this year, nearly \$36 million will be distributed to other land-based regional corporations, which will in turn redistribute 50 percent of the amount they receive to their village corporations.

Up until now, NANA royalty payments have been based on 4.5 percent of the net smelter value of the ore processed at the mine. However, the cash flow at the mine entered a new era in the 3rd quarter of 2007 when NANA began receiving 25 percent of the net proceeds from the mine. The royalty will increase by 5 percent with each five-year period to a maximum of 50 percent.

Based on current lead and zinc prices, NANA is estimating it may potentially receive over \$6.5 billion in net proceeds payments over the projected life of Red Dog, currently out to 2031. Of that

amount, over \$4 billion will be paid out to other regional corporations. However, these revenues are at risk if the initiatives are approved by voters in the fall.

In a recent letter to Native corporation presidents, NANA President Marie Greene warned that if the proposed water initiatives become law, operations at Red Dog, as well as future developments to extend the mine's life beyond 2012, face a very uncertain future.

"The initiative proponents argue that existing mines that already have all necessary permits, somehow would not be impacted," Greene said. "However, the initiatives themselves fail to acknowledge that every mine constantly requires updates and modifications to permits over the life of the development."

Greene warned that if the initiatives become law and Red Dog cannot secure new permits to continue operations, the \$6.5 billion in royalties will "never materialize." She said, "the initiatives absolutely put in jeopardy our ability to responsibly develop our natural resources."

RED DOG & THE ENVIRONMENT

The land surrounding Red Dog is rich in metals which results in naturally occurring Acid Rock Drainage (ARD). This results in rust colored staining of streams and rocks which is actually how

the deposit was discovered. Baseline studies conducted in the 1980s prior to the mine's development indicated these pre-existing water quality issues. The water quality upstream of the mine was and still remains highly degraded.

Prior to the mine's development, Barr explained that frequent fish kills were recorded in waters downstream from the Red Dog deposit. Since development, the water quality has significantly improved, which resulted in fish extending their reach up into Red Dog Creek, which was previously devoid of aquatic life. In fact, a fish weir had to be installed immediately downstream of the mine's discharge site to prevent fish from swimming upstream.

"It is critical to note that the water is safe to drink," Barr said in reference to NANA's commitment to preserving subsistence resources. "The animals, fish and berries are safe to eat. Numerous studies are conducted to ensure this. Red Dog mine could not operate if this weren't true. While NANA is charged with working towards economic development and sustainability for our people, we continue to place the highest priority on protecting our subsistence culture."

Barr also noted Red Dog is one of the few mines operating in America that has achieved ISO 14001 Certification. The certification is an international standard that defines the overall structure and

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“THESE ARE INITIATIVES THAT ALASKA CANNOT AFFORD,” NANA WARNS

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requirements of an environmental management system. The standard is based on compliance with regulations, prevention of pollution and continual improvement.

MINING SHUT DOWN INITIATIVES

Barr bristles at the backers of the initiatives who claim they are about ‘clean water.’ She noted the initiatives set the bar at a level that cannot be reached, making it impossible for a large mine to be developed or to operate in Alaska.

The initiatives prohibit any large scale metallic mining operation that exceeds 640 acres, including roads, ports, fuel storage facilities and other infrastructure. Red Dog covers over 1,800 acres.

Barr noted the initiatives would prohibit the release of water containing any amount of metals or chemicals, even if the water is cleaner than tap water and meets stringent state water quality standards.

“What’s the bottom line with these initiatives?” Barr asked. “An end to mining as we know it. They would shut down existing mines when they apply for new permits, which they do on a



Mines across Alaska could be impacted by the initiatives. Pictured above is the Ft. Knox mine, a major generator of tax revenue and jobs to Fairbanks.

regular basis, and prohibit future mines,” Barr said. “The initiative’s language prohibits the operation of a metal mine if it creates waste rock or tailings. That’s an impossible standard. It prohibits any water discharge – even if

those discharges meet the state’s already stringent standards,” Barr continued.

“These initiatives will rob communities, Alaskans and local governments of significant sources of revenues,” Barr added.

Over the long term, the Alaska Department of Natural Resources estimates the initiatives could result in a loss of over \$10 billion in revenues to the state. In addition, local governments, which currently collect over \$14 million a year from mining, would lose a critical tax base. The estimate is based on impacts the initiatives could have on existing mines in operation today across Alaska and do not include revenue streams from potential future mines.

“We also lose billions more in additional revenue to Alaskan businesses that support the mining industry,” Barr said, as well as over 3,000 jobs for mining employees and their families. “There are hundreds of Alaskans attending trade schools or colleges with the ultimate goal of gainful employment at one of the existing mines in Alaska today,” Barr said.

“These are initiatives that Alaska cannot afford.” Barr concluded.

ALASKANS UNITE TO STOP SHUTDOWN OF MINING

A new statewide coalition of Alaskans concerned about the negative effects on Alaska of two proposed ballot initiatives was announced last month.

Alaskans Against the Mining Shutdown will direct a statewide campaign to defeat two statewide ballot initiatives which could have the effect of shutting down existing mines and prohibiting future mines in Alaska. The campaign notified the Alaska Public Offices Commission of its intention to register as a ballot measure group should these measures be certified for the ballot by Lt. Governor Sean Parnell.

“The end result of the ballot initiatives would be a shutdown in jobs, a shutdown of a rapidly growing sector of Alaska’s economy and, for many communities, a shutdown of hope. These initiatives would have a devastating effect on Alaska’s mining families, and be a serious economic blow to rural communities and the economy statewide,” said Marie Greene of Kotzebue, a founding member of the campaign committee and president of NANA Regional Corporation.

Other founding members of the campaign committee

include RDC President John Shively of Anchorage, Kristan Cole of Wasilla, Bill Corbus of Juneau, Hugh Fate of Fairbanks, Robert Favretto of Kenai, Cheryl Frasca of Anchorage, Ernie Hall of Anchorage, Marc Languard of Anchorage, Matthew Nicolai of Anchorage, Vicki Otte of Anchorage, Mark Pfeffer of Anchorage, Ramona Reeves of Fairbanks, John Sandor of Juneau, Helvi Sandvik of Anchorage, William Sheffield of Anchorage, Rick Solie of Fairbanks, Arliss Sturgulewski of Anchorage, Dan Sullivan of Anchorage, Jim Taro of Ketchikan, Tim Towarak of Nome, Mead Treadwell of Anchorage, Jim Whitaker of Fairbanks, Bill Williams of Ketchikan, and Mayor John Williams of Kenai Peninsula Borough.

Willis Lyford, an Anchorage marketing and public affairs executive, will serve as the campaign’s director headquartered in Anchorage, and Timothy Sullivan, Jr. of Anchorage, a longtime Alaska government affairs consultant, will serve as campaign field director.

Editor’s Note: To learn more, please visit www.againsttheshutdown.com



A decision on whether to list the polar bear on the Endangered Species Act is expected this month. A listing is likely to result in activists challenging future oil and gas development in northern Alaska.

CHUKCHI SEA LEASE SALE SETS RECORD, ACTIVISTS CITE POLAR BEAR LISTING

The U.S. Minerals Management Service's February 6 lease sale in the Chukchi Sea attracted a record 667 bids and nearly \$2.7 billion in winning bids, making it the most successful sale in Alaska to date. This was the third lease sale to occur in the Chukchi, with the closest tract 54 miles from land.

"We are very pleased with the sale's historic results," said MMS Director Randall Luthi, in remarks delivered before the Resource Development Council's Anchorage breakfast forum the morning after the record event. "Oil and gas resources present in the Chukchi Sea are vital to our nation's and Alaska's economy."

Luthi noted the lease sale comes at a critical time when the nation's demand for energy is increasing. "We can either close the gap with domestic production, or increase our reliance on foreign sources," Luthi said. "This sale represents an opportunity to lessen the gap."

Over the past 30 years, MMS has funded nearly \$300 million for environmental studies in Alaska waters and since 2000, the agency has conducted 30 to 40 studies each year offshore Alaska.

"We are committed to ensuring that all environmental concerns have been addressed while we move forward to supply energy to our nation," Luthi said.

Companies submitted bids totaling almost \$3.4 billion, with high bids of more than \$2.6 billion. The highest bid received for the sale was \$105,304,581 submitted by Shell. Other companies participating in the sale included ConocoPhillips, Repsol E&P USA, Inc., Statoil Hydro, Eni Petroleum, Iona Energy and North American Civil Recovery.

"We know that the Chukchi Sea is very important to the people who live along its coast and use its resources," Luthi said. "MMS will continue working closely with the State of Alaska, local communities, whalers and industry to help minimize any impacts of industry activity on subsistence hunting. In fact, leases issued from the sale will include stipulations for protection of biological resources, including marine mammals and migratory and other protected birds, and methods to minimize interference with subsistence hunting and other subsistence harvesting activities."

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YOUNG TAKES COLLEAGUE TO TASK OVER LEASE SALE OPPOSITION

Editor's Note: Below is a condensed version of a letter from Congressman Don Young to Rep. Edward Markey (D-MA) regarding a bill that would have delayed the February lease sale in the Chukchi Sea.

I am disappointed that you have chosen to introduce H.R. 5058, which seeks to postpone Lease Sale 193 in the Outer Continental Shelf in federal waters off Alaska. If, in combination with your decades-long opposition to ANWR, it succeeds in stopping U.S. production of energy, I am afraid that the people of Massachusetts will continue to suffer from an economy battered by higher energy prices and our increasing dependence on unreliable foreign sources for energy. At a time when all Americans are suffering from higher energy prices and the havoc those prices are having on the U.S. economy, I wanted to share with you the importance of Alaska's resources to the people of the nation.

OCS Lease Sale 193 is estimated to contain 15 billion barrels of oil and 77 trillion cubic feet of natural gas, for a combined total of 27.8 billion barrels of oil equivalent. ANWR is estimated to hold another 10.4 billion barrels of oil, for a total of 38.2 billion barrels of oil. This would almost double the total United States proven reserves of oil. And at today's oil and gas prices, Lease Sale 193 and ANWR represent nearly \$3 trillion to the U.S. economy, if we choose to develop them. Failure to access these energy supplies represents another \$3 trillion that Americans will spend to buy foreign oil, because our economy will require at least that much oil until we switch to alternatives.

The choice for Americans is simple: do we want to send \$3 trillion to foreigners, or get off our duffs and use our own energy and keep the money

(Continued to page 8)

“What I find most interesting is that your proposal to lock-up vast amounts of American energy coincides with the so-called ‘economic stimulus’ proposals, all of which are nothing more than band-aid fixes that ignore the root of the problem. True economic stimulus, as our competitors around the globe have shown us, is having abundant, affordable, and reliable supplies of energy to inject into an ailing economy.” – Congressman Don Young

POLAR BEAR ACTIVISTS TARGET LEASE SALE

(Continued from page 7)

The sale was not without controversy as environmentalists filed suit in federal court earlier this month to stop it. They argue that oil and gas exploration and development should not occur in polar bear habitat.

In a sign of things to come if the polar bear is listed under the Endangered Species Act (ESA), opponents protested the lease sale and turned out in force at a recent U.S. House Committee hearing on global warming, which called on the Interior Department to halt the sale. The hearing drew a standing-room-only crowd with some spectators dressed up in fuzzy polar bear costumes holding signs reading, “Oil greed destroying the world,” and “Don’t drill in my home.”

Rep. Edward Markey (D-MA) filed legislation in an unsuccessful attempt to force the agency to hold off on the sale.

The agency estimates the Chukchi Sea holds 15 billion barrels of oil and as much as 77 trillion cubic feet of natural gas. The Beaufort Sea and the National Petroleum Reserve-Alaska could hold up to another 125 trillion cubic feet of gas, but environmentalists are likely to push for critical habitat designations in the most highly-prospective areas should an ESA listing of polar bears occur.

RDC is concerned that a listing of polar bears and its subsequent third-party lawsuits would jeopardize a gas line from the North Slope to the Lower 48. New natural gas discoveries beyond the Slope’s 35 trillion cubic feet of known reserves are vital to the gas line’s economic viability. Known reserves are not enough to make the project economic.

The polar bears are well managed by international and domestic agreements, laws and regulations, making them one of the most protected species in the world. Their worldwide population has doubled in 40 years, and in Alaska the population is healthy in size and distribution.

YOUNG TAKES COLLEAGUE TO TASK ON ENERGY ISSUES

(Continued from page 7)

here at home?

For the people of Massachusetts, the result of producing the energy that they own in Alaska is profound, especially at a time when many households in your state have been devastated by heating oil costs. I know that our former colleague Joe Kennedy has been working with Hugo Chavez’s government in Venezuela to provide 45 million gallons of heating oil to poor households in America. ANWR and Lease Sale 193 contains 36,000 times as much energy as Citgo, Hugo Chavez and our former colleague are providing for the poor and displaced in America. The production of that energy here would also produce hundreds of billions of dollars in taxes, royalties and added benefits to help grow our own economy, instead of economies of foreign governments.

The people of Massachusetts used just under 137 million barrels of oil in 2005 to get around, heat their homes, generate electricity and make things. The energy in Alaska you oppose would fill all of the needs of the people of your state for 279 years, and create hundreds of thousands of American jobs and billions of dollars in royalties and taxes – instead of being replaced by foreign oil and foreign jobs. Surely you can understand – at a time like this when our economy is stumbling and our people are suffering from the high cost of energy – why I think it is important that we begin to work together to bring America’s energy supplies online to help Americans.

What I find most interesting is that your proposal to lock-up vast amounts of American energy coincides with the so-called “economic stimulus” proposals, all of which are nothing more than band-aid fixes that ignore the root of the problem. True economic stimulus, as our competitors around the globe have shown us, is having abundant, affordable, and reliable supplies of energy to inject into an ailing economy.

That is why I have had a hard time understanding why you would introduce legislation that would deliberately withhold domestic supplies of American energy from those Americans to whom they belong so that we can continue to buy more foreign oil, send more American dollars to foreign governments, and pay even higher energy costs.

Some have ridiculed President Bush for asking the Middle Eastern countries to produce more oil on his recent trip, suggesting that he was “begging for oil.” I wonder why he didn’t just stay at home and ask Congress to stop making it illegal to produce energy in the United States, and forego begging foreigners for their oil.

– Congressman Don Young



Congressman Don Young

FOREST SERVICE CLOSES MORE OF THE TONGASS NATIONAL FOREST TO LOGGING

The U.S. Forest Service released a revised management plan for the Tongass National Forest, leaving only 3.4 million acres of the 17-million acre unit open to development and some logging.

The revised plan would keep the potential maximum annual harvest the same at 267 million board feet, although the agency concedes the harvest is unlikely to exceed 100 million board feet annually for the next several years.

With the volume of timber under contract at an all-time low, last year only 20 million board feet was logged. The installed manufacturing capacity in the region is about 370 million board feet and the normal operating capacity for the currently-operating mills is about 200 million board feet annually.

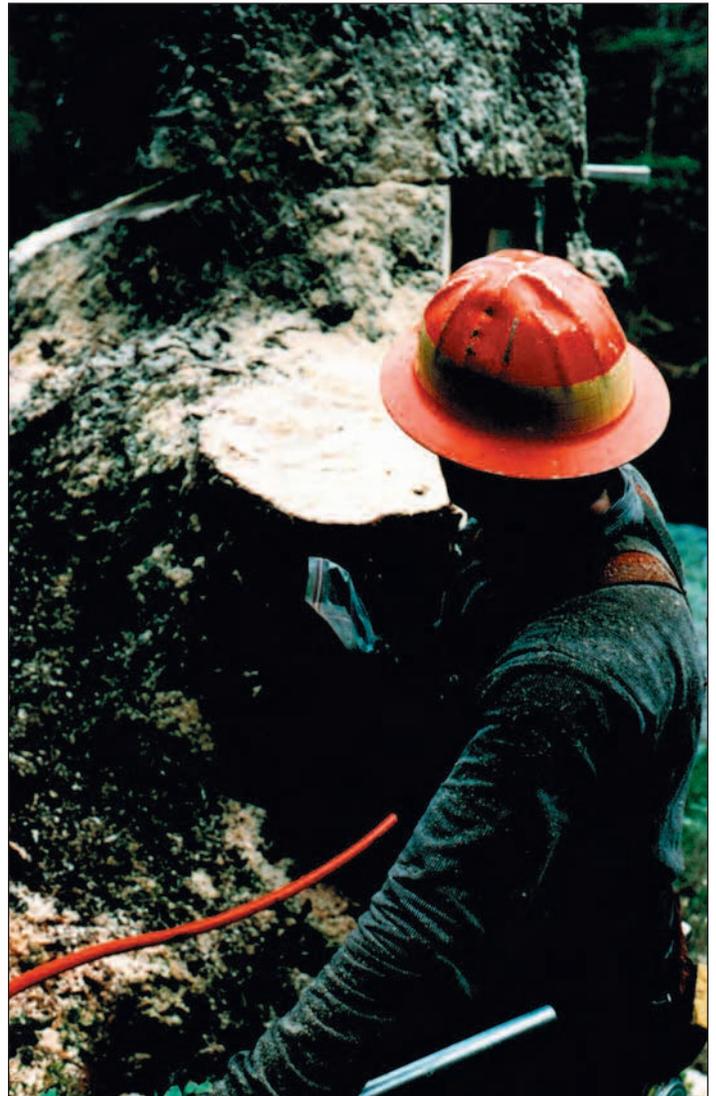
The new plan removes several areas from the timber base that had been identified as wildlife corridors. The plan adds 90,000 acres to old-growth reserves and protects an additional 47,000 acres considered most vulnerable to development.

While the plan leaves 2.4 million acres in backcountry areas open to logging, only about 663,000 acres would actually be scheduled for harvesting over the next 100 years, and half of that acreage is second-growth timber cut decades ago.

Overall, 10 million acres of the Tongass is forested and 5.5 million acres is considered commercial timberland. Since 1907, only a little over 400,000 acres have been logged. Under the new plan, only 6.5 percent of commercial-grade old-growth acreage will be harvested between now and 2108.

The Tongass plan was originally adopted in 1980 and has been amended many times since then. With each revision, the timber base available to a fledgling forest products industry has diminished. Prior to 1990, 450 million board feet of timber was typically harvested from the forest on an annual basis.

In comments submitted to the Forest Service last spring, RDC and the Alaska Forest Association said that the Forest Service, through its management plan revision for the Tongass, could help build a more diverse and vibrant economy in Southeast Alaska by allocating a sustainable and sufficient long-term supply of economic timber. Such action would restore a fully integrated forest products industry in the region, the groups noted.



The timber industry in Southeast Alaska today is a mere shadow of itself. With most of the Tongass now off-limits to logging, the forest products industry and its support sectors have lost over 4,600 jobs since the 1990s, following the closure of the region's two major pulp mills and numerous sawmills. The annual payroll lost since 1990 is over \$100 million.

But in order for a fully integrated industry to take root, the agency would need to strike a true balance among multiple uses in a forest that is mandated to be managed under the multiple use principle, as opposed to the more restrictive uses of a national park.

Did the Forest Service strike a fair balance in its latest plan revision? Initial feedback from industry indicates the agency fell short.

“Although the Alaska Forest Association has not yet seen the final EIS for this plan, given all the efforts the agency has made to maintain the conservation strategy that was developed for the 1997 plan and the lack of recognition of the devastating effects that plan has had on the timber industry; it is hard to imagine how this amended plan can provide adequate economic timber for an integrated timber manufacturing industry,” said George Woodbury, President of the association.

The plan takes effect 30 days after it is published in the Federal Register, which is expected by mid-February. Groups have 90 days to legally challenge the plan.



A LITTLE LESS TALK AND A LOT MORE ACTION

For many years, business leaders in Alaska and the organizations they belong to, such as RDC, have been imploring our state government to develop a fiscal plan.

However, the response to these pleas has been very disappointing. It is true that we occasionally hear political leaders talk about pieces of a plan. The current plethora of approaches to saving surplus funds from the new oil taxes is an example of the piecemeal approach we have seen in the past.

Alaska is at an interesting crossroads with regard to fiscal planning. Our government has chosen to increase taxes at a time when we already have a surplus, which puts us in the enviable position (unless, of course, you are one of the state's three major taxpayers) of being able to discuss how these surplus funds might affect our fiscal future. Thus, it would seem to be the perfect time for our leaders to construct a fiscal plan.

So, how might a plan be constructed? The first step in any fiscal plan is to look at the expense side of the equation. This step would require using a base year to start from and then estimating future expenses based on some formula driven by assumptions including inflation and population growth. I would propose that such a plan cover at least a ten-year period and be updated no less frequently than every other year.

Using 2006 as the base year for the operating budget, and limiting future budgets to three percent growth per year might be a place to start. It is true that such a formula would mean that the 2008 proposed operating budget is \$600 million over the target, but the same formula was adopted by the legislature in the recent special session raising production taxes.

The point here has less to do with what the formula is than that the state needs to have some long-term spending goals so we can stop the piecemeal approach to budgeting, which has become a major detriment to fiscal discipline.

The legislature could also consider adopting a two-year budget cycle. I believe there will be several positive effects from such a policy. These include reducing the temptation to increase the operating budget each year, helping the legislature meet the voter mandated 90-day session, and reducing the time that executive branch agencies have to spend on the budgeting process, thus freeing them to carry out their other responsibilities.

Similar long-term goals need to be set for the capital budget. However, the annual increases to the operating budget pose the biggest threat to long-term fiscal stability.

Any fiscal plan must have a policy for saving surpluses, and there are several options for doing so. One would be to pay back the debt owed to the Constitutional Budget Reserve Fund that has resulted from previous withdrawals from that fund. A solid fiscal plan would also set a target for how large we want this fund to grow.

Another place to save the surplus is in the Permanent Fund. However, before making future deposits to this fund, I believe the legislature should adopt the Percent of Market Value

approach for distributions from this fund, either by statute or by amending the constitution. Such an approach would keep the dividend program, but also set aside some of the distribution to be returned to the Earnings Reserve portion of the Permanent Fund in times of surplus, but be available for meeting budget deficits in less robust times.

The split between these two streams of revenue will probably be the subject of a good deal of public debate, but a 50/50 split seems reasonable to me. There are also some that would put a cap on the dividend, and that is certainly a subject that could be discussed as part of any long-term fiscal plan.

Once these savings decisions have been made, the state should be able to estimate probable revenue streams for the ten-year period. Such a plan would give us the basis for some comfort as to how the state will address those years in the future when deficits will surely be the order of the day, even if it would lead us to having discuss the possibility of a statewide tax.

Certain items will drive any discussion of a fiscal plan. These include the funding of education, local government revenue sharing, and the debt to the state's retirement funds, among others. In addition, the steady decline in oil production will play a dominant role in any 10-year fiscal projection.

A fiscal plan should drive fiscal discipline, particularly if the legislature were to adopt the base budget assumptions I presented above. However, as much as political leaders talk about holding the line on and/or reducing the cost of government, they have not done so. If government is ever to get serious about cutting expenses, then it must realize the only way to achieve this illusive goal is to repeal laws. New laws drive new expenses. Getting rid of old laws and refining the time-consuming and wasteful processes that government sometimes employs is a way to make a well designed fiscal plan work.

I have tried to lay out some options to get to a fiscal plan for our state. Admittedly, it is not the only road map to that destination. However, no matter what the route, if we do not start this journey in a time of fiscal abundance, we will be forced into crisis planning when this abundance no longer exists.

By not acting now, the government is wasting an opportunity and will also inevitably waste at least some of our fiscal resources. In the words of a country western song, what we need is, " a little less talk and a lot more action."

"No matter what the route (to a fiscal plan), if we do not start this journey in a time of fiscal abundance, we will be forced into crisis planning when this abundance no longer exists."

RDC, CONSERVATION COMMUNITY OFFER AWARD

RDC and the Alaska Conservation Alliance have joined together to establish an award to honor organizations, individuals and/or businesses that create solutions and innovations that advance economic development and environmental stewardship.

The "Tileston Award" is in honor of two long-time Alaskans, Peg and Jules Tileston, who worked on seemingly different sides of conservation and development issues but who always agreed "that if it is in Alaska, it must be done right."

The award will not be viewed as a 'green' award for industry or an 'economic' recognition for a conservation organization. It will be uniquely Alaskan, whose recipients are determined by board members from each organization.

Nominations for the 2008 Tileston Award will be accepted through March 31. For more information or an application, visit www.tilestonaward.com.

COMMENTS DUE ON YUKON FLATS LAND EXCHANGE

The U.S. Fish and Wildlife Service has released a Draft Environmental Impact Statement for the proposed Yukon Flats National Wildlife Refuge Land Exchange between the agency and Doyon Limited. Beginning this month and continuing into March, public hearings will be held in a number of Interior Alaska villages, as well as Anchorage and Fairbanks. Written comments are due by March 25.

Both Doyon and RDC are supporting the Proposed Action Alternative which would require the Native corporation to turn over 150,000 acres rich in fish and game resources to the agency. Doyon would receive oil and gas rights to 200,000 acres of lower-quality habitat with high oil and gas potential, but would have surface rights to less than 110,000 acres.

Significant quantities of oil and gas may exist beneath the refuge. A recent private sector report estimates recoverable resources of as much as 1 billion barrels of oil and 15 trillion cubic feet of natural gas. The exchange would allow both Doyon and the agency to consolidate their holdings in the refuge. With 2 million acres, Doyon is the largest private land owner in the 11-million-acre refuge.

For details and comment points, see RDC's Action Alert at: www.akrdc.org/alerts/2008/yukonflatslandexchange.html

GROUPS SUE TO BLOCK DEVELOPMENT IN NPR-A

Three environmental groups are suing the federal government to block oil development in Alaska's National Petroleum Reserve in the name of the yellow-billed loon, a bird that breeds in tundra wetlands in Alaska, Canada and Russia. The groups claim the loon is threatened by oil development in the energy reserve and that if it is to survive in a warming Arctic, its habitat should not be open to oil and gas development.

The Center for Biological Diversity is leading the effort to

list the loon under the Endangered Species Act. The same group has also petitioned the federal government to list the polar bear.

MORE BELUGA WHALES IN COOK INLET

NOAA Fisheries Service biologists estimate a beluga whale population of 375 in Cook Inlet, according to data collected during their annual survey last summer. This population estimate is the largest since 2001, increasing from 302 in 2006.

Cook Inlet beluga whales were listed as depleted in 2000 under the Marine Mammal Protection Act. Since then, subsistence hunting, believed to be the main cause behind the whale's steep population decline in the last decade, has been curtailed. Last year NOAA Fisheries Service proposed listing the Cook Inlet population under the Endangered Species Act (ESA). A final determination is due this spring.

RDC, the State of Alaska and local governments have opposed an ESA listing, believing the whales are now in recovery mode, and noting they are protected under current laws, regulations and agreements.

RDC ACTION ALERT: TULSEQUAH CHIEF MINE

The Alaska Coastal Management Program is seeking public comments on the consistency of the Tulsequah Chief Mine Project proposal to use Alaskan waterways to transport materials from British Columbia to Juneau. Comment deadline is February 21. See RDC Action Alert: www.akrdc.org/alerts/

TRANSCANADA ADVANCES IN AGIA PROCESS

Governor Sarah Palin announced last month her administration has finished its review of the five AGIA applications and that TransCanada has satisfied all of the mandatory requirements set out in law. The company's application is now under evaluation to determine whether it will merit issuance of the exclusive AGIA license. The State is now soliciting public comments to help it evaluate the application and make that determination.

The companies which had applied under AGIA to develop and build a natural gas pipeline to transport North Slope gas to market were: AEnnergia LLC, the Alaska Gasline Port Authority, the Alaska Natural Gas Development Authority, Little Susitna Construction Company (Sinopec) and TransCanada.

ConocoPhillips submitted an 'alternative' proposal outside the AGIA process, but that plan was rejected. While TransCanada's application was deemed complete, the administration determined that the other applicants did not meet the requirements of AGIA.

Public comment will close March 6. If the Palin administration determines TransCanada's proposal merits issuance of the AGIA license, it will forward the application to the Legislature for approval.

Meanwhile, ConocoPhillips says its proposal merits consideration and it has taken its plan to Alaskans through a major media campaign. The company is seeking new discussions on the plan with the administration.

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