

**ALASKA**  
DEPARTMENT OF  
COMMERCE,  
COMMUNITY,  
AND ECONOMIC  
DEVELOPMENT

# 2010 Alaska Economic Performance Report

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# ALASKA ECONOMY: Gross Domestic Product

Based on gross domestic product (GDP), Alaska's economy grew by more than seven percent between 2009 and 2010. Total economic output increased from \$45.7 billion to \$49.1 billion over the period. This growth is primarily attributed to strong commodity prices, stable exports, and insulation from the national recession due to increased economic activity.

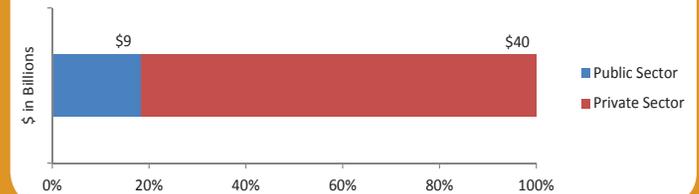
## Gross Domestic Product

GDP, as reported by the federal Bureau of Economic Analysis, is considered the broadest measure of economic health because it measures everything businesses and governments produce within a geographic area.

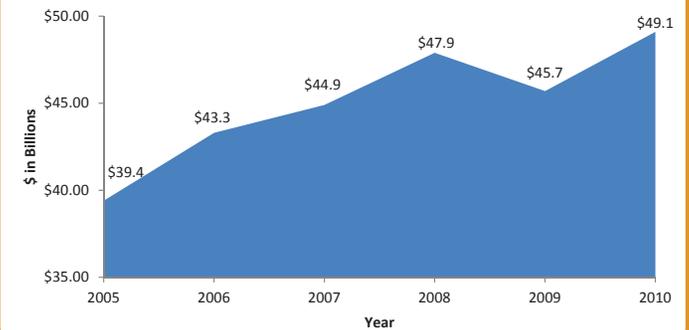
State GDP figures provide an important perspective of Alaska's economy. It provides opportunity to measure Alaska's productivity relative to other states. It also details

Alaska's product mix and compares it to the rest of the nation. Based on GDP, Alaska ranks 46th among U.S. states for total economic output in 2010. The differences in overall production and resulting economic activity are likely the reasons why Alaska weathered the national recession better than most states. During the past decade, Alaska's GDP grew approximately three percent per year versus two percent national growth.

## Alaska's \$49 Billion Economy

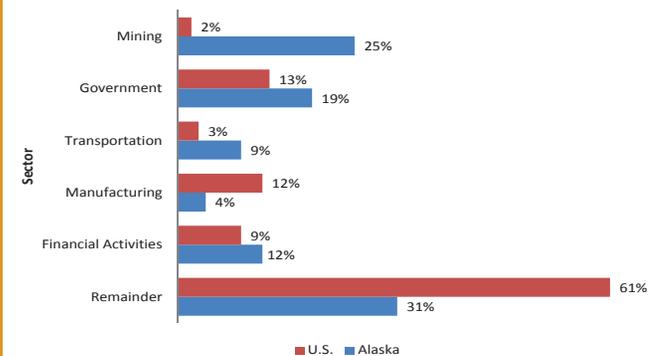


## Alaska Gross Domestic Product



## A Tale of Two Economies

Alaska and U.S. GDP, 2010



# ALASKA ECONOMY: Gross Domestic Product

## Gross Domestic Product by Industry

In 2010, Alaska produced \$49 billion in goods and services. The single largest component of Alaska's GDP is minerals, and most of that is oil. Oil and gas production represents approximately 25 percent of the state's 2010 GDP. Although direct employment in the oil and gas industry comprises just four percent of total state employment, the GDP figure illustrates oil's profound importance in Alaska's economy. The public sector comprises 19 percent of the state's gross product, making it the second largest contributor after oil. The single largest public share comes from the

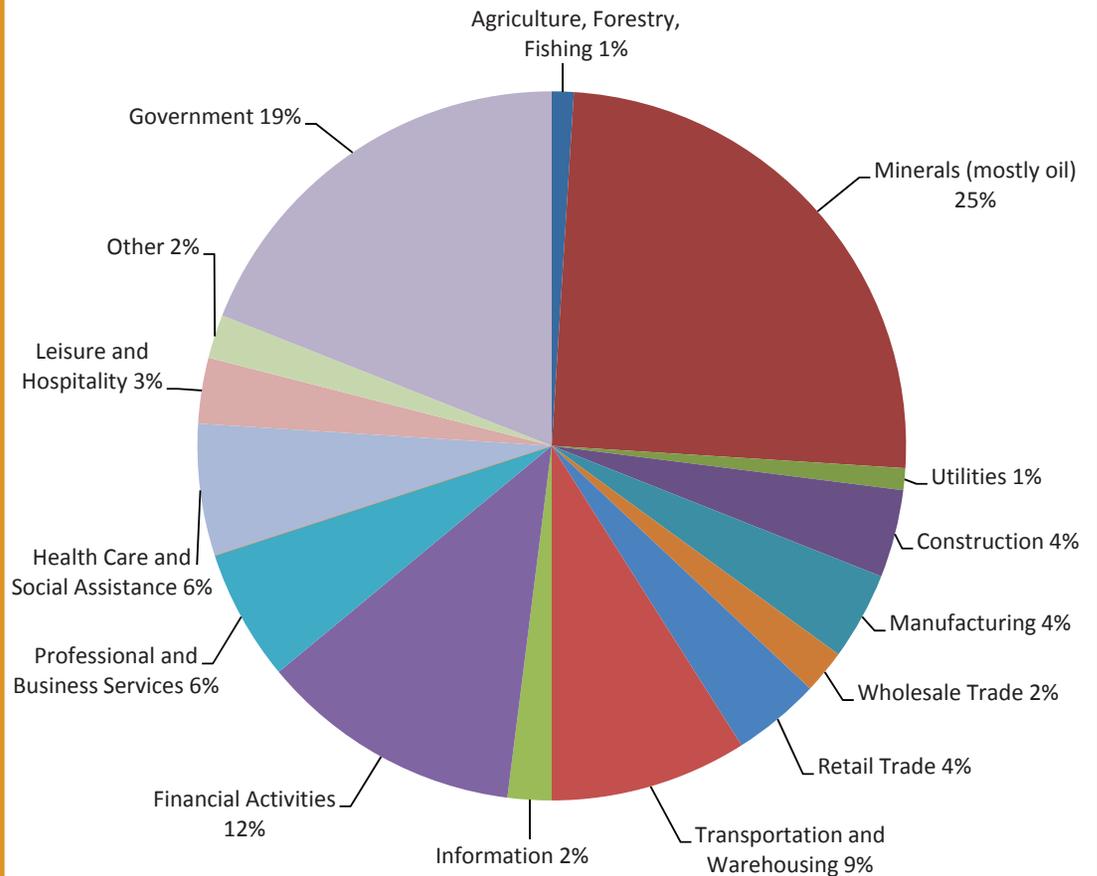
federal government, which is dominated by the military. Financial activities (12%) and transportation and warehousing (9%) also represent relatively large components of the state's GDP. GDP from the seafood industry is not as clear because these figures are reported across multiple economic sectors. Specifically, harvesting is reported in forestry and fishing while processing is reported in food product manufacturing. Although seafood represents a large share of these categories, it is difficult to aggregate one GDP number for the industry.

Jack-Up Spartan 151



The single largest component of Alaska's GDP is mining, and most of that is oil.

## Alaska's Gross Domestic Product by Industry



# ALASKA ECONOMY: Gross Domestic Product

## Per Capita Gross Domestic Product

At \$63,424, Alaska's per capita GDP is the highest in the nation. Although there is typically a correlation between per capita income — for which Alaska ranks eighth in the nation — and per capita GDP, there is an important difference. While income data is calculated for Alaska residents only, GDP measures the market value of goods and services produced in the state without differentiating residency.

Similarly, the profits — or in GDP terms, the “net operating surplus” — of companies operating in Alaska are part of the state's GDP, whether or not these profits stay in Alaska. Alaska's high per capita GDP numbers indicate the state's economy

is especially productive relative to its population, but much of that is tied to the high value of Alaska's commodities, especially oil and minerals.

The contrast between Alaska's GDP and that of the nation and other states is dramatic. Alaska's economy has a unique composition of products — the big standout is oil and gas, which represents less than two percent of national GDP, but 20 to 25 percent in Alaska, depending on the price of oil. Oil does not play as prominent a role in any other state in the nation.

The public sector is also significantly larger in Alaska due to the large

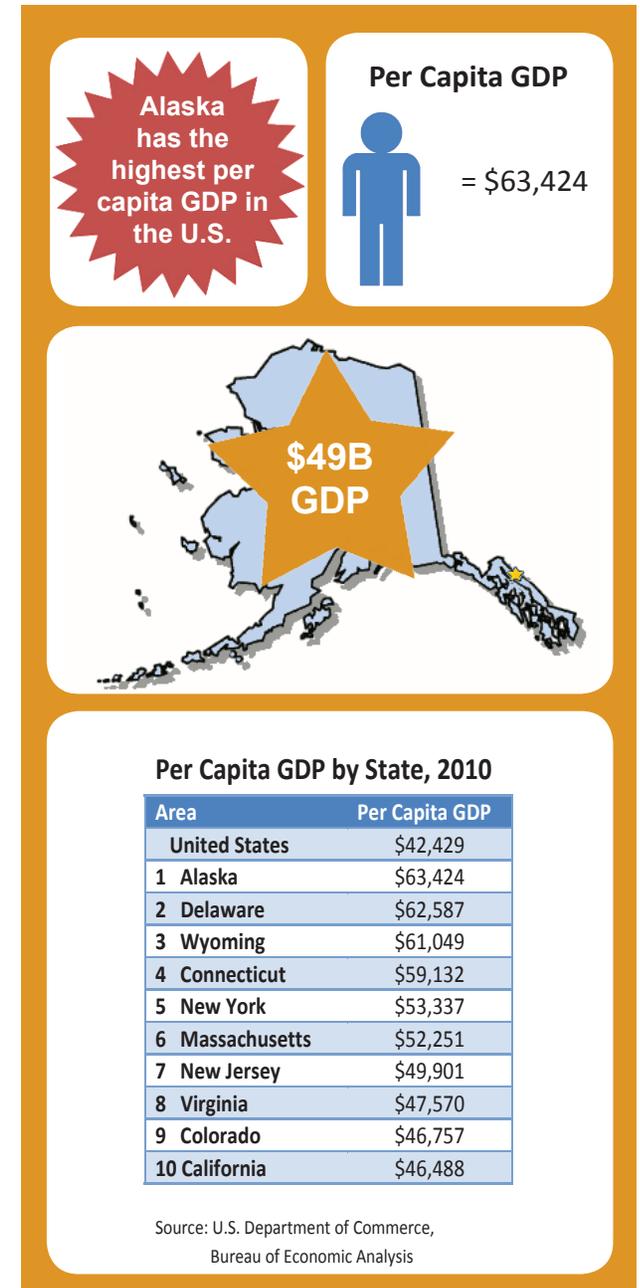
presence of the military and federal civilian sectors. Another major difference is manufacturing, which accounts for 12 percent of the nation's GDP, but only totals four percent in Alaska. The small amount of manufacturing in Alaska is dominated by seafood processing and oil refining, which are a fraction of the nation's manufacturing sector. Financial activities — made up largely of banks, mortgage companies, brokerage houses, and real estate companies — also play a much larger role nationally. These four differences cushioned Alaska's economy through the recent recession, as oil and mineral prices reached record levels.

### Acknowledgement

Neal Fried, Economist, Alaska Department of Labor and Workforce Development.

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# SOCIOECONOMIC TRENDS: Population

According to the *2010 Census of the Population* compiled by the U.S. Census Bureau, Alaska's 2010 population passed the 700,000 mark for the first time. While the state's population grew by 13 percent (83,299 people) over the past decade, the rate of growth slowed compared to the the prior 80 years.

## Alaska's Growing Population

Although Alaska's overall population growth was the slowest in eight decades, at 13 percent it is still higher than the national growth rate (10%) for the past decade. Alaska remains the least densely populated

state with approximately one person per square mile. Alaska continues to rank as the 47th most populous state, outnumbering only North Dakota, Vermont, and Wyoming, as well as the District of Columbia.

**2010 Statewide Population**  
710,231

**2010 State Population Rank**  
47th

**Statewide Population Increase (2000 - 2010)**  
13%

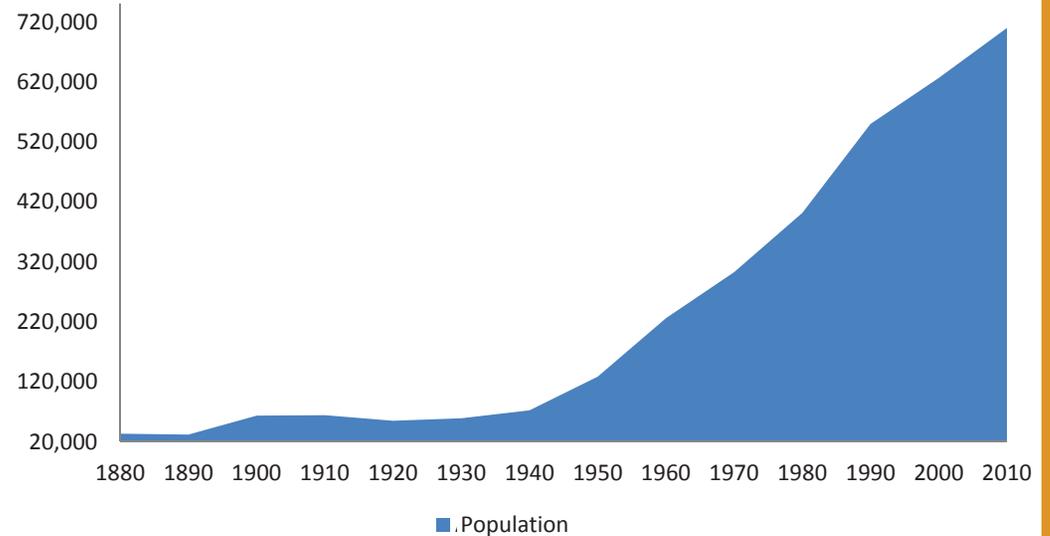
**2010 Borough Population**

Anchorage	291,826
Fairbanks Borough	97,581
Juneau	31,275

**Greatest Regional Population Increase (2000 - 2010)**  
Southcentral: 19%

**Greatest Regional Population Decrease (2000 - 2010)**  
Southeast\*: -2%  
\*The only region to decline

## 1880 - 2010: Alaska Population



# SOCIOECONOMIC TRENDS: Population

## Age, Race, and Gender

Describing a population's age, race, and gender is one of the most basic ways to understand population change and composition over time. As in prior decades, Alaska's population is young, largely characterized by two races including white and Alaska Native, and almost equally split between the genders.

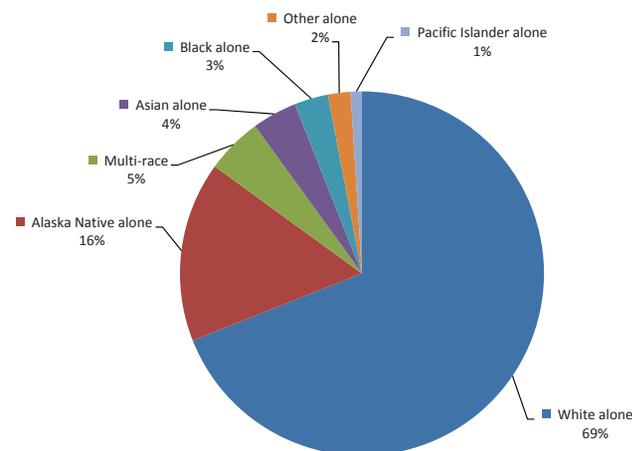
Since the 2000 Census, the nation's population has continued to grow older, with many states reaching a median age of over 40. Alaska, however, continues to defy national trends with a significantly younger population. During 2010, Alaska's median age was 34, compared to a national median of 37. Only eight percent of all Alaskans were 65 years of age or older, compared to 13 percent nationwide. Alaska is one of

a few states where men still outnumber women; during 2010, men accounted for 52 percent of Alaska residents.

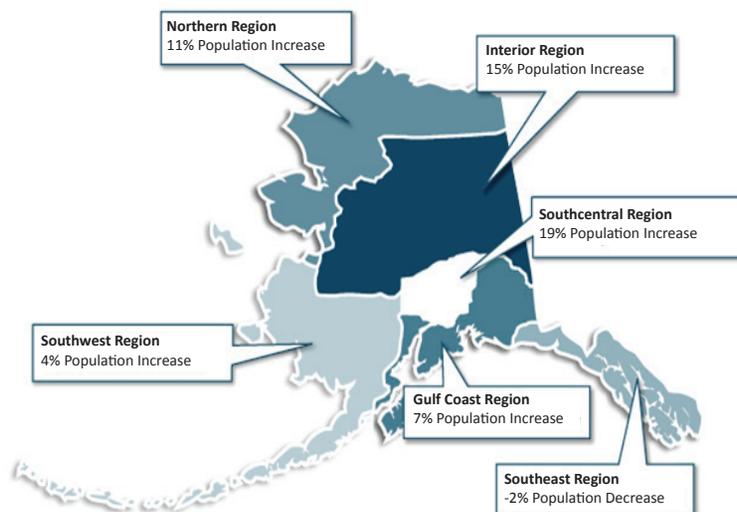
Americans were allowed to define themselves by one or more races for the first time in the 2010 Census. This resulted in more detailed and accurate information regarding race, and also provides a more complex analysis of race at national, state, and local levels.

Alaska's racial composition continues to be dominated by two categories - white and Alaska Native. During 2010, more than two-thirds of Alaskans (69%) report "white alone" and one-fifth (16%) report "Alaska Native alone." The remaining 15 percent of Alaska's population report multi-race, Pacific Islander, Asian, African American, or other ancestry.

### Alaska's 2010 Population by Race



### Population Change by Region (2000 - 2010)



# SOCIOECONOMIC TRENDS: Population

## Population Change

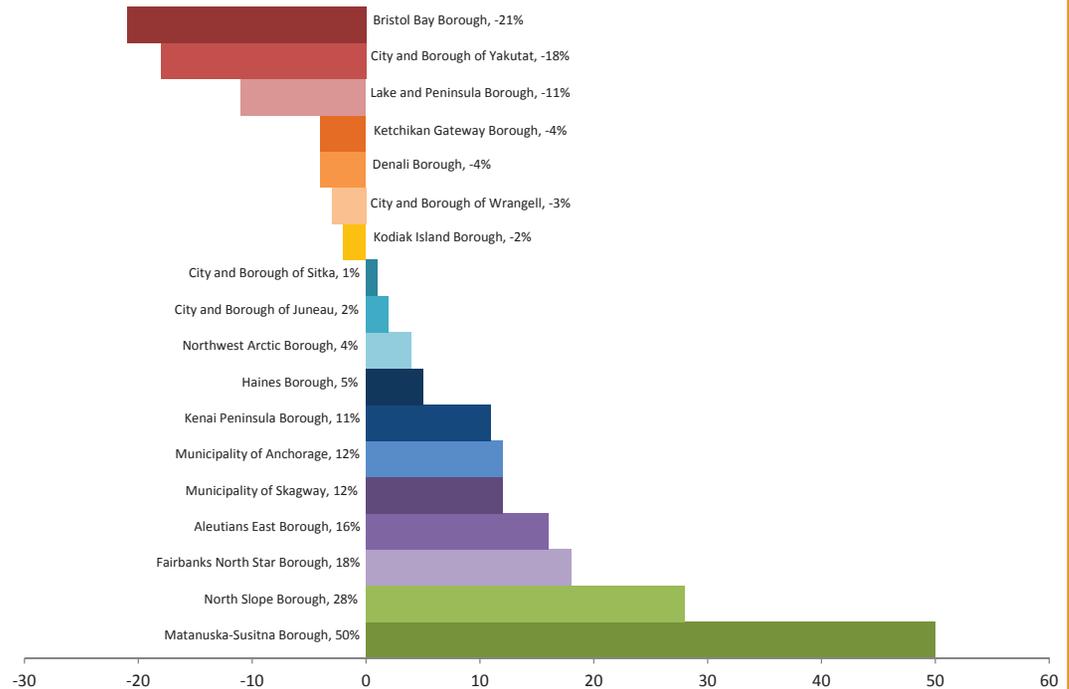
Alaska's population growth is a result of natural increase (i.e., births minus deaths) and positive net migration. Population growth rates vary by region. During the past decade, all regions experienced population growth except Southeast Alaska (-2%), which declined due to net out-migration and lower birth rates. The Southcentral Region, composed of the Municipality of Anchorage and the Matanuska-Susitna (Mat-Su) Borough, continues to be the fastest growing region with 19 percent population growth over the past decade.

An examination of trends at the borough level reveals a wider range of population change over the past decade. Of 18 borough governments, seven declined

and 11 increased in total population. Alaska's five most populous boroughs continued to grow during the past decade; however, only the Fairbanks North Star Borough and the Mat-Su Borough grew at a faster rate than the prior decade. The City and Borough of Sitka's growth was the lowest of all boroughs (1%) while the Mat-Su's remained the highest (50%). Considering overall community population, Anchorage remains the most populous community, with a total population of 291,826. Fairbanks surpasses Juneau as the second largest community, with a total population of 31,535. Juneau follows in third, with a slight population increase to 31,275.

An examination of trends at the borough level reveals a wider range of population change over the past decade. Of 18 borough governments, seven declined and 11 increased in total population.

2000 – 2010: Borough Population Change



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# SOCIOECONOMIC TRENDS: Employment

Although Alaska weathered the national recession well, the past few years have yielded unusual circumstances for the state's employment scene, including periods of growth, decline, and stagnation. Alaska has fared well during a period of national economic uncertainty because the state's economy is significantly and structurally different. With an economy based on natural resources and a strong export portfolio, Alaska largely escaped the recession and significant job losses.

## State Unemployment

During the national recession (2007 – 2008), Alaska's economy and employment base kept growing while the nation shed 7.5 million jobs. However, employment growth came to a halt in 2009, when the state lost nearly half a percent (-0.4%) of all jobs after 21 consecutive years of employment growth. 2010 brought yet another turnaround as Alaska experienced over one percent (1.1%) growth in employment. The future outlook is somewhat unknown as the national, and now global, economic recession and slow recovery will continue to impact Alaska's economy and employment base.

Measuring unemployment is important to determining the health of an economy. Alaska's jobless rate remains lower than the rest of the nation. At the close of 2010, Alaska's seasonally-adjusted unemployment rate equaled 7.9 percent, nearly three percentage points less than the nation's 9.4 percent unemployment rate.

## Regional Unemployment

Unemployment rates vary significantly across the state. Rural regions and communities, as well as those that are dependent upon seasonal employment in the fishing and visitor industries, typically experience the highest rates of unemployment. At the close of 2010, the Municipality of Skagway experienced the highest unemployment rate at nearly 28 percent, followed by the Denali Borough at nearly 18 percent. In contrast, the City and Borough of Juneau and the North Slope Borough experienced the lowest unemployment rates at 5.8 percent and 4.6 percent, respectively.

As the capital city, Juneau's economy is largely composed of year-round public sector jobs. The North Slope Borough similarly benefits from year-round employment due to the strong presence of the oil industry and related services.

Similar to other places in the nation, Alaska's actual unemployment rate is likely higher than official unemployment rates as unemployed residents eventually discontinue job search efforts and are not accounted for in official government employment statistics.

Measuring unemployment is important to determining the health of an economy.

### Employment Growth

1.1%

### Statewide Unemployment

7.9%

### Highest Unemployment Rate\*

Municipality of Skagway

### Lowest Unemployment Rate

North Slope Borough

# SOCIOECONOMIC TRENDS: Employment

## Alaska's Economy has Sustained

Strong oil and commodity prices kept the minerals, oil, and gas sectors steady with high profits and secure employment during a time of national economic turmoil. Rising fish prices and healthy catches fueled growth in the seafood harvesting and processing sectors, which are mainstays of Alaska's rural economy and family livelihoods.

Although future budget cuts to remedy a growing national deficit are likely, the federal government is still a critical employer of Alaska residents. It is expected federal spending for military

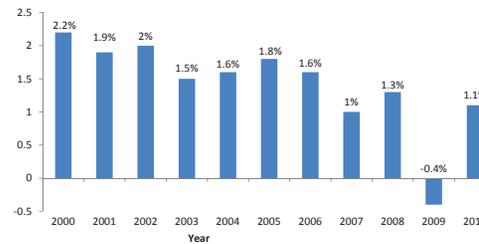
and construction projects will likely remain at current levels, continuing to employ Alaskans in the near-term.

The nation's slow and fragile economic recovery has already yielded benefits for Alaska's employment base as the visitor industry and international cargo sectors picked up the pace during 2010. Research, from multiple sources, indicates increases in visitors and visitor spending have occurred over the past two years resulting in economic benefit for Alaska's tourism businesses, employers, and employees.

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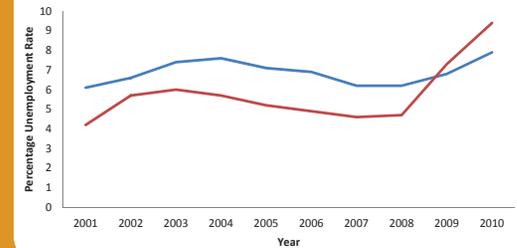
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Employment Growth, 2000 to 2010

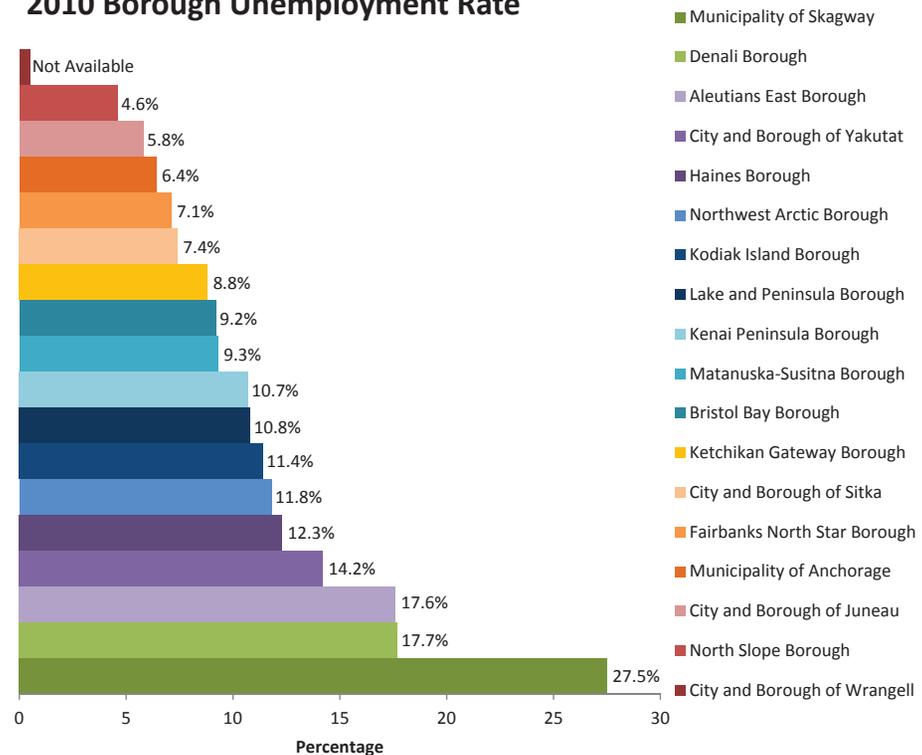


Seasonally Adjusted Unemployment Rates, Alaska and U.S.

January 2001 to December 2010



2010 Borough Unemployment Rate



# OIL AND GAS: At a Glance

Alaska's oil and gas industry is the single largest source of state revenue and provides some of the highest paying private sector jobs. The majority of oil revenues come from oil production, providing 89 percent of 2010 general fund unrestricted revenue. Oil and gas represents approximately 25 percent of the state's gross domestic product (GDP) in 2010, compared to two percent of the national GDP.

## Spotlight: Cook Inlet Financial Incentives

In 2010, in order to incentivize investment, the *Cook Inlet Jack-Up Rig Credit* was established for the first three wells drilled by the first jack-up rig in Cook Inlet. This credit may be applied against a production tax liability, transferred or purchased by the state up to the maximum dollar amounts specified in statute.

Cook Inlet is also included in the geographic area south of 68 degrees north latitude where the *Well Lease Expenditure Credit* allows for a 40 percent credit. Capital expenditures that do not qualify for the *Well Lease Expenditure Credit* can qualify for the 20 percent *Qualified Capital Expenditure Credit*.

Once production starts, the tax burden on Cook Inlet oil and gas production is low: production tax on oil is zero and the production tax for natural gas is capped at \$0.18 per thousand cubic feet.

Implemented in 2010, the *Gas Storage Facility Credit* encourages the commercial operation of gas storage facilities by allowing a credit against the state corporate income tax in the amount of \$1.50 for each 1,000 cubic feet of qualified, certified working gas storage capacity. The total amount of the credit for a single gas storage facility may not exceed the lesser of \$15 million or 25 percent of the costs incurred to establish the facility.

Cook Inlet Natural Gas Storage Alaska (CINGSA), a joint venture between Enstar's parent company Semco Energy and MidAmerican Energy Holdings Company, is a gas storage (re injection) facility with multiple wells and room for expansion. This type of storage facility will help with the seasonal fluctuation in demand.

## 2010 Oil and Gas Indicators

### Oil Revenue

\$6.2 B

### Unrestricted Revenue

\$4.9 B

### Average Per Barrel Cost of Oil

\$79

### 2009 - 2010 North Slope Oil Production

-7%

### Restricted Revenue

\$1.3 B

### Energy Export Value\*

\$413.8 M

\* Includes liquefied natural gas (LNG), refined petroleum products, and coal.



Kuparuk Processing Facility

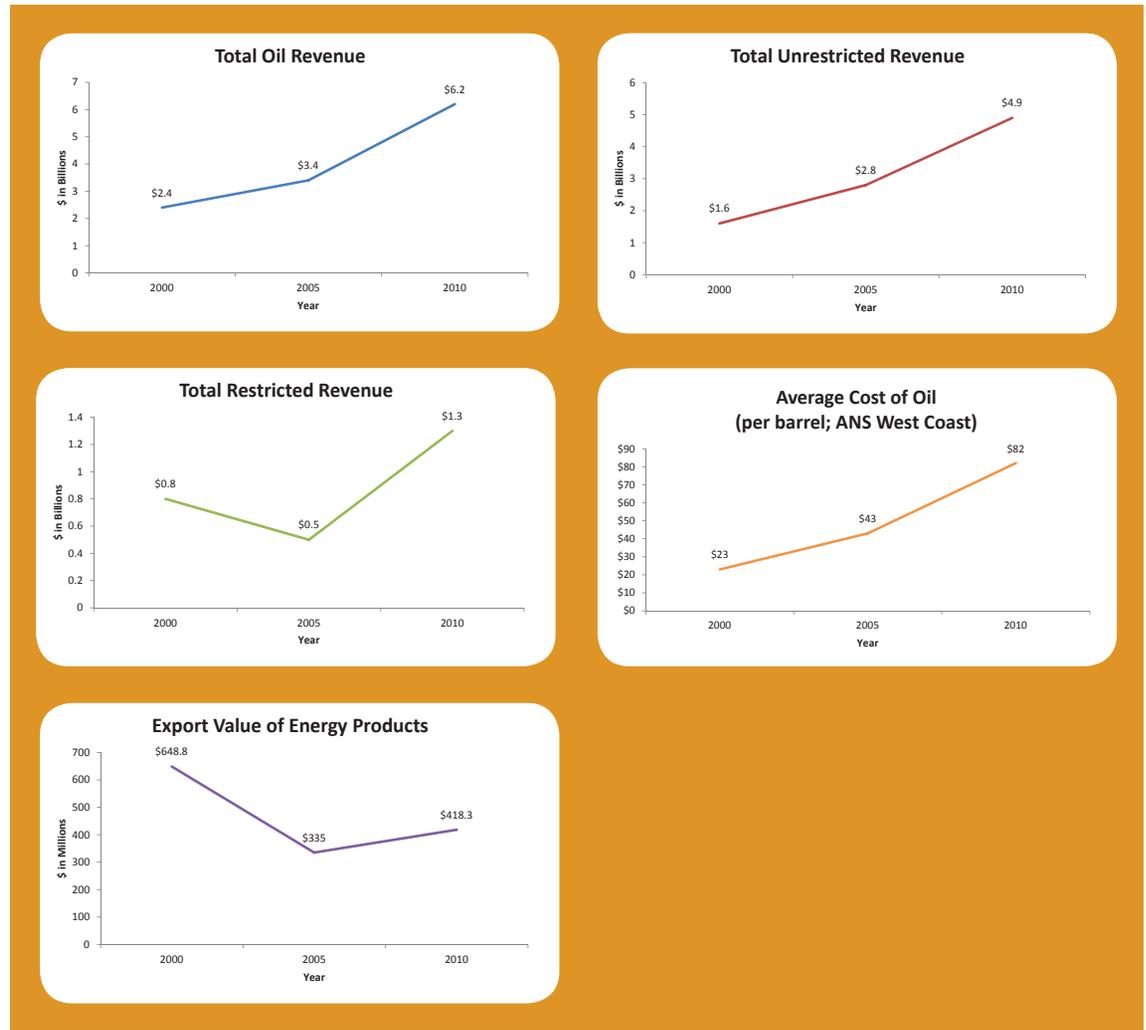
# OIL AND GAS: At a Glance

The 2010 exports of refined petroleum products were \$26.7 million, down 31 percent in a cascading effect remaining from the international economic crisis. Although international cargo airlines operating in Anchorage increased Asia-North America flight frequencies in 2010, jet fuel demand has not yet recovered to 2007 – 2008 levels. Consequently, less jet fuel was produced in Alaska in response to decreased demand. The reduction in jet fuel production from Alaska oil led to a corresponding reduction in refined petroleum products for export.

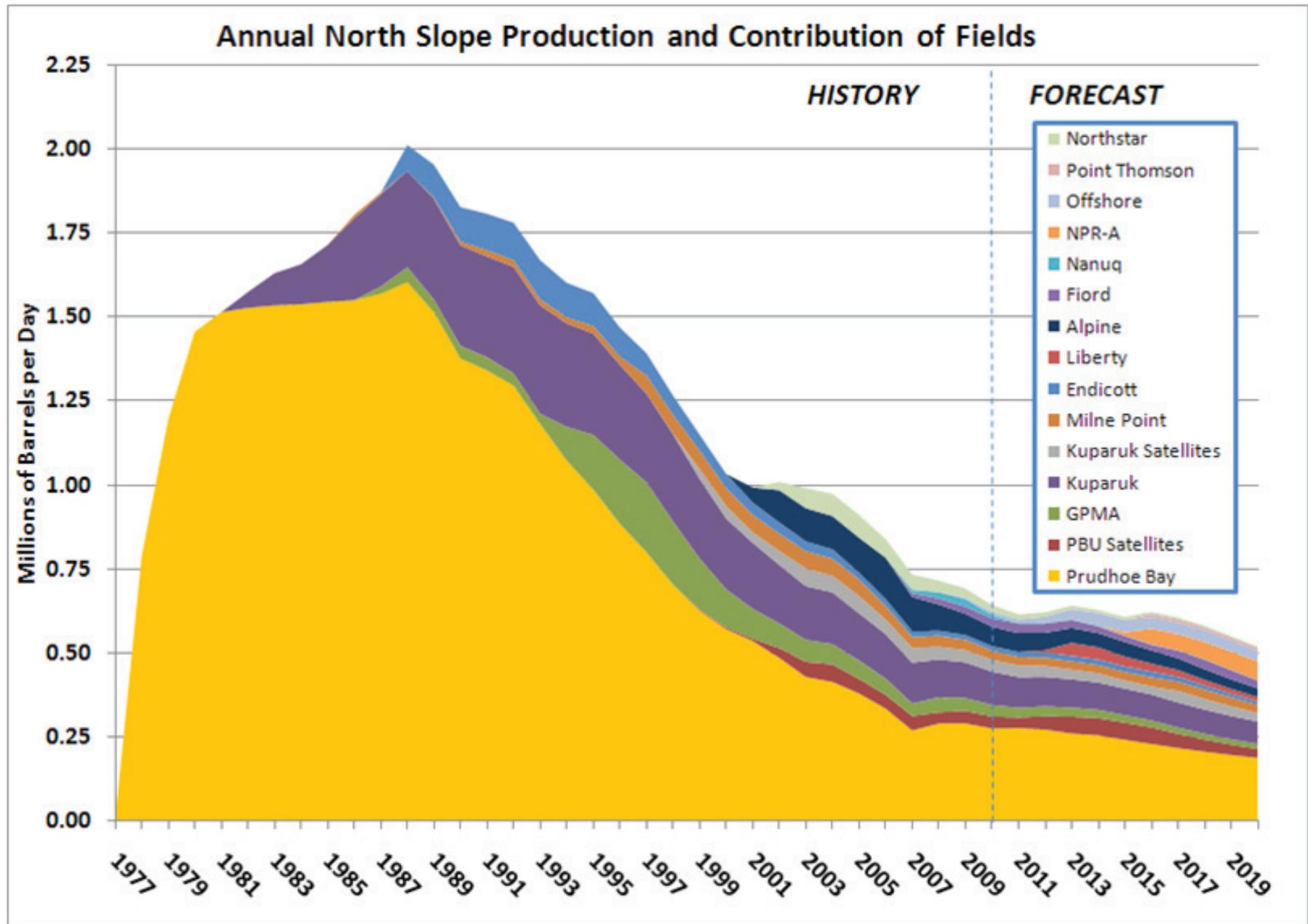
## Opportunities

- Oil prices above historical average.
- Oil and gas tax credits and incentives make up a significant portion of the state's oil and gas revenue structure. Generous capital credits, exploration and drilling credits, and credits for net-loss carry forward contribute to ameliorating Alaska's unique net revenue tax structure.
- An estimated 900 million barrels undiscovered, technically recoverable oil in the 23-million-acre National Petroleum Reserve Alaska (NPRA) continues to hold promise for Alaska's future.
- Mean estimates of undiscovered, technically recoverable resources in Arctic Alaska's waters exceed 20 billion barrels of oil and 100 trillion cubic feet of gas.
- Preparing Alaska's workforce for jobs and training opportunities for the natural gas pipeline project.

## Oil and Gas Trends



# OIL AND GAS: At a Glance



# OIL AND GAS: Discussion

## Challenges

While workforce development and operating in an extreme climate are industry challenges, the greatest concern is an overall decrease in production. The Trans-Alaska Pipeline plays a vital role in the life of Alaska's economy, and the value it adds to the state GDP is equally important.

Increasing the volume of oil in the pipeline is the preferred solution. Alternatively, exploration opportunities have focused on potential offshore oil production and heavy oil above the existing known light oil resource, both of which remain to be tapped.

## Outlook

According to the Alaska Department of Revenue, oil income will continue to dominate the state's outlook, providing at least 87 percent of unrestricted funds through fiscal year 2020. Unrestricted revenues of \$5.5 billion and \$5.7 billion are projected for fiscal years 2011 and 2012 respectively.

The projected ANS West Coast prices for fiscal years 2011 and 2012 are \$77.96 and \$82.67 respectively. The fiscal year 2013 projection is \$87.86. Over the long-term, oil prices are projected to increase at approximately three percent per year based on inflation. Oil production on the North Slope is projected to decline four percent during fiscal year 2011, while there is a projected increase by one percent for fiscal year 2012. Oil prices remained strong throughout 2011; however, declining oil production

has been a multi-decade long liability that has been buffered by high prices and budget reserves. Although production is anticipated to continue declining, employment in the industry is likely to increase due to the likelihood of more labor intensive methods and an increase in exploration.

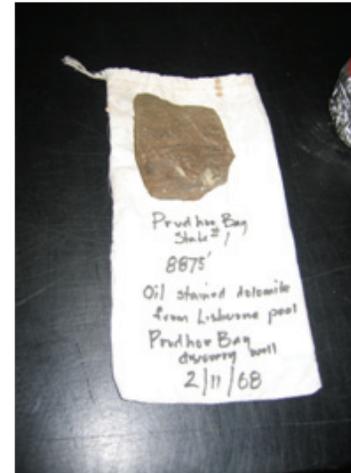


Drill core from oil and gas exploration drilling in Alaska. Core is stored and available for view at the Alaska Geologic Materials Center.

## Special Topic: Employment in Oil and Gas

According to a study completed by McDowell Group, Inc. for the Alaska Oil and Gas Association (2011), employment and payroll in the oil and gas industry from October 2009 through September 2010 included over 4,840 jobs and \$764 million in payroll. The report also stated total direct and indirect jobs account

for 13 percent of all private sector employment (10% of all employment) in Alaska and 18 percent of all private sector resident earnings (13% of all resident earnings). Oil and gas employment reached record levels despite the ongoing decline in oil production in Alaska.



Oil stained dolomite sample taken at 8,875 ft depth from drill core in the Lisburne oil pool – Prudhoe Bay discovery well on February 11, 1968. Sample is stored and available for view at the Alaska Geologic Materials Center.

# OIL AND GAS: Discussion

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# MINERALS: At a Glance

Alaska's mineral industry continues to grow based in part on the state's great mineral resources, its strategic location, and strong commodity prices. In 2010, spending on mineral exploration totaled \$264.4 million, an increase of 47 percent over 2009. Development expenditures exceeded \$200 million for the seventh consecutive year.

## Spotlight: Coeur Alaska

On June 24, 2010, Coeur Alaska started operations at the Kensington Gold Mine in Southeast Alaska. Production for 2010 was 43,143 ounces. The mine operating plan provides for placing tailings as paste backfill in mined areas and an on-site flotation mill. The path to becoming a producing mine took more than 15 years. Coeur d'Alene Mines Corporation obtained a 100 percent ownership interest of Kensington in 1995. The majority of the permitting process was completed in 2005.

Construction of the mine and mill facilities proceeded over the next two years. However, the permit for the tailings storage facility was delayed by legal challenges. On June 22, 2009, the U.S. Supreme Court affirmed the Kensington permit for

tailings placement. Based on an estimate of 1.5 million ounces of mineral reserves, Kensington will average approximately 125,000 ounces annually over an initial mine life of ten years. Additional gold resources at the site are estimated at 767,000 ounces.



Strategic Minerals Assessment 1, courtesy of DNR

## 2010 Minerals Indicators

**Gross State Product**  
\$933 M (2009)

**Jobs**  
3,872

**State Revenues**  
\$167.3 M

**Production Value**  
\$3.1 B

**Exploration Expenditures**  
\$264.4 M

**Development Expenditures**  
\$293.3 M

**Export Value**  
\$1.3 B

# MINERALS: At a Glance

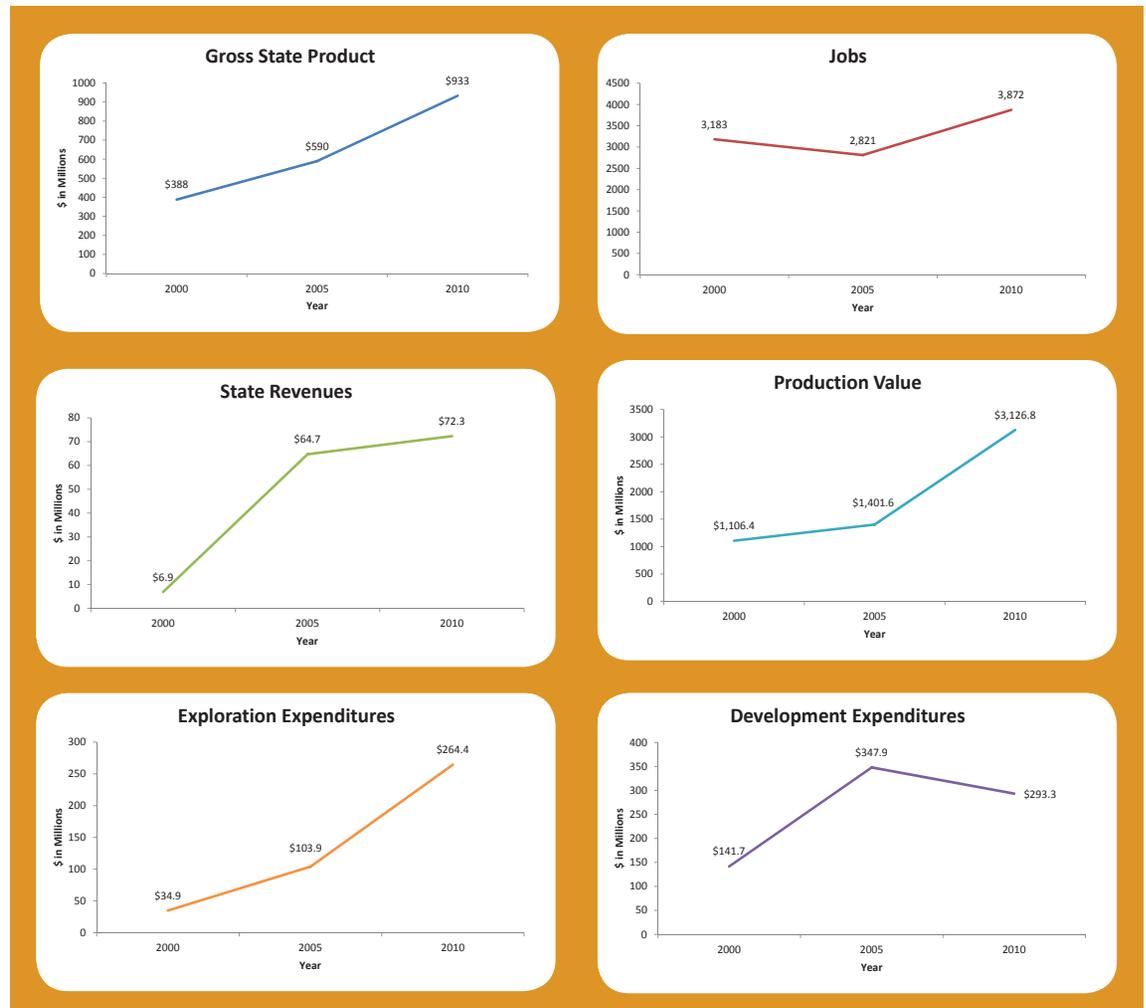
The estimated gross wholesale (first market) value of mineral production in 2010 increased more than 27 percent, to \$3.1 billion, from \$2.5 billion in 2009. The value of total mineral exports in 2010 was \$1.3 billion, up 57 percent. Mining employment rose 18 percent in 2010 to 3,872 full-time-equivalent jobs, with a total payroll of \$218 million.

## Opportunities

Access to capital, commodity prices, and development costs are primary determinants of a mining project moving from exploration to development and production. State agencies have increased efforts to collaborate via team approaches to outreach, permitting, and other processes to improve engagement with project developers.

- Current gold prices and global demand for base metals and coal, combined with the mineral potential of the state, provides opportunity for the mining industry.
- Opportunities to develop cost-effective electrical energy facilities are abundant and include large-scale state-supported power development projects statewide.
- The Alaska Industrial Development and Export Authority (AIDEA) continues to support opportunities for investment in rural settings through large scale infrastructure, power, and transportation projects.
- The State of Alaska continues to support further assessment of strategic and critical minerals resources.

## Minerals Trends



# MINERALS: Discussion

## Challenges

The Alaska Minerals Commission advises the governor and the state legislature regarding the challenges facing the minerals industry:

- Access to low-cost energy in rural Alaska for industrial scale development and community development.
- Adequate transportation routes developed through public-private partnerships and other investments can expand rural infrastructure, reduce cost of living, and lower energy costs for rural Alaskans, communities, and industries.

- An efficient permitting process must be implemented and maintained in order for mineral development to occur.
- Special interest litigation designed to stop natural resource development.
- Mines in Alaska, even in the more developed areas, face problems related to housing, trained workforce, and supply chains.

As Alaska expands exploration to include rare earth-bearing minerals, a better understanding of the type, level, and location of processing and the potential export of rare earth element (REE) concentrates is required. The industry and the state need to develop tools and relationships to identify the supply-chain and logistics to bring this type of product to the global market.

## Outlook

The Alaska mining industry is driven by complex and dynamic global factors including commodity prices, inflation, labor, energy, materials, technology, public policy, accessibility, and infrastructure (Bundtzen, 1983). Record metal prices and declining availability of strategic minerals (including those containing REEs) continue to fuel mineral exploration in Alaska. Increased exploration and placer activity are anticipated in 2011.

Strategic and critical materials are defined as those that are needed to supply military, industrial, and civilian needs during a national defense emergency and for which supplies are dependent on imports. The U.S. imports over 80 percent of many strategic minerals, including cobalt, manganese, platinum

group metals, REEs, tantalum, and yttrium (Butts, 2011). Consumer electronics, batteries, wind turbines, industrial magnets, and other new technologies require REEs. REEs come almost exclusively from China. In 2010, China severely reduced its exports of REEs, opening the door for Alaska opportunities.

In December 2010, Governor Parnell announced the inclusion of \$500,000 in the fiscal year 2011 budget for a strategic assessment

of REEs in Alaska with long range plans to invest \$3.2 million more. The state also encourages assessment of these valuable resources on federal and private land. Proposed federal legislation also proposes to increase development of domestic REE supplies.

There are efforts in Alaska to begin rare earth mineral production. The most promising is the Bokan Mountain / Dotson Ridge project located on Prince of Wales Island.



Bokan Mountain, courtesy of DNR

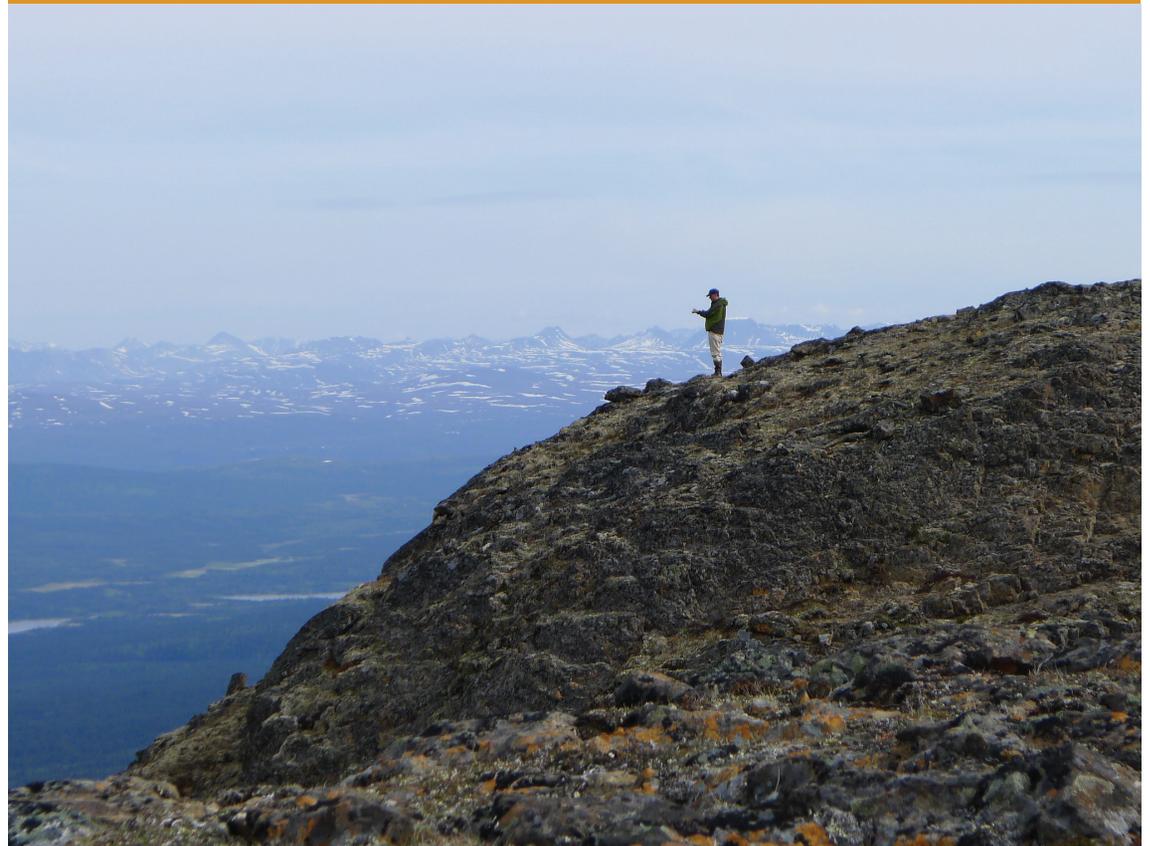
## Special Topic: Gold Nugget Discovery

### *Prospector who discovered Alaska's Largest Gold Nugget Receives 2010 State Reclamation Award*

Barry Clay, a miner at Swift Creek in the Ruby-Poorman mining district, was recognized by the Alaska Department of Natural Resources for high quality reclamation work. On his grandfather's advice and personal experience, Clay staked a claim at Swift Creek and his father joined him in working the claim. In 1998, Clay found a 294-ounce gold nugget, the largest ever found in Alaska.

Clay has a passion for doing careful, thorough reclamation work. "Barry prides himself on taking care of the land. He likes to go further than the regulations require. He disturbs only the minimum amount of ground necessary to remove the valuable minerals. He designs settling ponds that will keep any turbid water out of area streams. When he is done mining an area he returns the contours of the land to near their original state. Then the ground is restored and replanted with native vegetation that local wildlife thrives on." (Swift Creek Mine, 2011).

Record metal prices and declining availability of strategic minerals (including those containing REEs) continue to fuel mineral exploration in Alaska. Increased exploration and placer activity are anticipated in 2011.



Strategic Minerals Assessment 2, courtesy of DNR

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# SEAFOOD: At a Glance

During 2010, Alaska's commercial fishing fleet earned \$1.76 billion, up 21 percent from \$1.4 billion in 2009. Seafood processors sold this harvest for \$3.87 billion, up six percent from 2009. During the past ten years, combined seafood harvesting and processing workforce has averaged nearly 50,000 people.

## Spotlight: An Alaska Homeport

During 2010, Coastal Villages Regional Fund (CVRF), the largest of six Community Development Quota (CDQ) corporations, announced its intention to move eight deep draft at-sea vessels and ten other vessels including tenders, longliners, and a tug, from their current homeport of Seattle to the Port of Seward. This precedent-setting action will, in the words of Seward's mayor Willard Dunham, be "a first step in Alaskan-izing the Alaskan Fisheries, a longtime goal of the CDQ program and the late Senator Ted Stevens, and would be a significant opportunity for Seward."

As CDQs continue to purchase Bering Sea vessels currently held by private businesses, the cost saving incentives to home port these fleets in Alaska will grow. The direct economic impacts will be immediate. Annual CVRF maintenance costs in Seattle total between \$5 and \$10 million. Additional expenses, including moorage, vendor support, and supplies, cost approximately \$20 million per year. Flying crews back and forth from Seattle to Alaska cost CVRF over \$2 million per year.

While still being analyzed, the relocation of the CVRF to Seward could have dramatic impacts on Alaska's fishing industry and the Alaska economy.



Dutch Harbor Plant

## 2010 Seafood Indicators

### Gross State Product

\$5.6 B

### Jobs

53,000

### Taxes

\$78.7 M

### Export

\$1.8 B

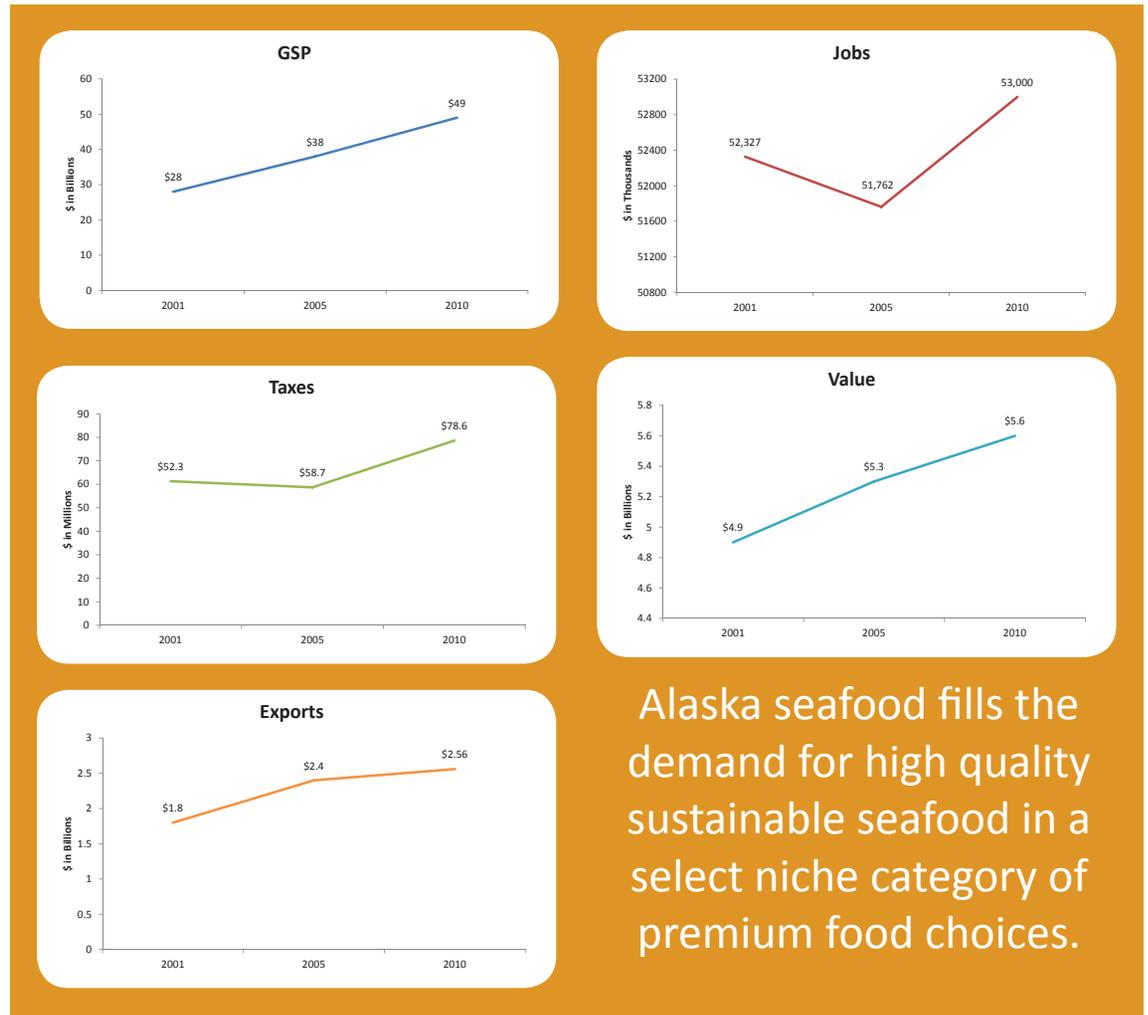
# SEAFOOD: At a Glance

## Opportunities

Opportunities for optimizing the economic potential of Alaska's seafood resources include:

- Promote a business climate that encourages greater Alaska ownership in commercial fishing and seafood processing businesses.
- Strengthen the marine industrial base by directing funds and implementing workforce development programs to build Alaska's coastal-based marine service sector, including: fishing and seafood processing, hatcheries, shellfish farms, ship yard and vessel repair businesses, marine technology and logistics, and ports and harbors.
- Tap underutilized commercial species by encouraging new commercial fisheries for octopi, spiny dogfish, and rays. Development is possible with adequate research dollars to develop management plans.
- Encourage direct marketing by commercial fishermen by supporting regulatory review for emerging businesses facing a complex, multi-agency permitting process.
- Improve the business environment for Alaska mariculture by pursuing cooperative efforts to develop a larger, more efficient shellfish mariculture industry.
- Promote ongoing efforts for new product forms to meet emerging consumer, food service, and retail preferences.

## Seafood Trends



Alaska seafood fills the demand for high quality sustainable seafood in a select niche category of premium food choices.

## Challenges

- The continuing growth of aquaculture products challenges Alaska seafood markets. Annual global aquaculture growth is steady at seven percent and will soon eclipse wild caught seafood in total production. Continuing the successful branding efforts by the industry and Alaska Seafood Marketing Institute (ASMI) to differentiate Alaska's high-quality wild seafood from the farmed product is critical to securing market share and growth.
- Alaska's shellfish mariculture industry continues to experience new development and growth. However, growers must continue seeking out new sources of financing, training, and research necessary for sustainable production and market development.
- Seeking a balanced approach to resource development. As international demand for Alaska's rich supply of natural resources increases, competing industries may conflict. Alaska's commercial fisheries, managed on a sustained-yield basis, will continue to seek science-based solutions to resolve resource allocation conflict.
- Pink salmon, a fish traditionally processed in Alaska as a canned product, is increasingly processed in China for canned resale back to the U.S., Europe, and Japan. Chum salmon is also shipped to China for reprocessing. As a seafood provider, Alaska's challenge is to create the needed business climate to keep production in Alaska and still meet market demand.

## Outlook

During 2010, values and harvest levels for most Alaska seafood remained steady or increased. Market demand kept prices high despite the global recession. A growing number of consumers demand high-quality and sustainable seafood. Alaska seafood fills this demand in a select niche category of premium food choices. With higher costs of production, Alaska cannot compete directly on price. Filling the premium niche is essential to the seafood sector.

As stocks rebounded, Pacific cod emerged as 20 percent of the world's supply. Prices for Pacific cod increased, but it remains to be seen if price strength will remain as other cod stocks rebound around the world.

Research indicates halibut stocks are on the decline with harvest levels trending downward. Based on

internationally negotiated management goals, it is anticipated that the total allowable catch will decline until the biomass rebounds.

Dive fishery values continue to improve for geoduck and sea cucumber as competition between Japanese and Chinese buyers for frozen and live product boosts prices. Perhaps the most looming problem for the Southeast dive fishery is the increased number of sea otters. Sea otters are voracious feeders capable of severely depleting shellfish stocks in a relatively short period of time.

Prices will remain strong for king crab, but quotas are declining. Managers expect declines in allowable harvest to give stocks time to rebuild. Snow crab populations, on the other hand, appear more robust with reasonably stable harvests in the coming years.

## Special Topic: Exports

In 2010, Alaska's leading export is seafood, worth \$1.8 billion and accounting for 44 percent of Alaska's total exports of \$4.2 billion. Two countries, Japan and China, make up more than a billion dollars of Alaska's total seafood exports. Japan, long the state's largest seafood export market, purchased \$523 million. China was a close second at \$517 million. China has been steadily growing in importance in Alaska's seafood exports as evidenced by a 23 percent increase in exports during 2010. Analysts expect China will overtake Japan as the leading importer of Alaska seafood by 2011.

Korea accounted for \$255.3 million of Alaska's seafood exports; Germany, \$128.9 million; the Netherlands, \$110.4 million; and Canada, \$90.4 million. In total, Asian markets accounted for 73.1 percent of Alaska's seafood exports in 2010 while exports to the European Union accounted for about 20 percent.

# SEAFOOD: Discussion

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# TOURISM: At a Glance

Recent economic impact research indicates nearly 1.8 million Alaska visitors spent \$1.5 billion during the 2009 travel season. This spending resulted in 40,000 peak-season full- and part-time jobs with a payroll of \$1.1 billion. This spending generated total economic activity of \$3.4 billion (i.e., direct, indirect, and induced spending), including \$208.6 million in local and state government taxes and revenues.

## Spotlight: Tourism Potential for Small Communities

The 2010 collapse of Cruise West, a small cruise ship operator, was a potential economic loss for many small towns in Southeast Alaska. Fortunately, two other small cruise ship operators have filled the void by expanding operations to new and unique Southeast destinations.

In 2009, InnerSea Discoveries (based in Seattle, Washington), began working with vendors and communities to develop new tours. In 2010, the company began offering new inside passage adventure cruises. Alaskan Dream Cruises, using a ship purchased from Cruise West, added new destinations in Southeast Alaska in 2011.



Yacht docked in Juneau

Tok General Store



Panning for Gold

## 2010 Tourism Indicators

### Jobs

40,000

### Taxes and Revenues

\$208.6 M

### Visitor Spending

\$3.4 B

### Labor Income

\$1.1 B

### Total Visitors

1.8 M

# TOURISM: At a Glance

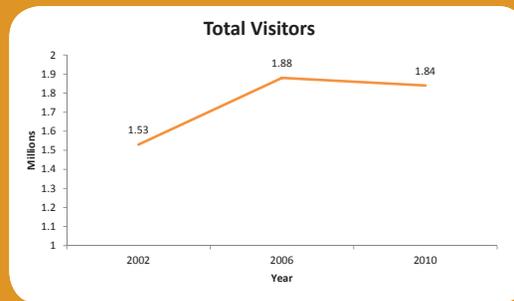
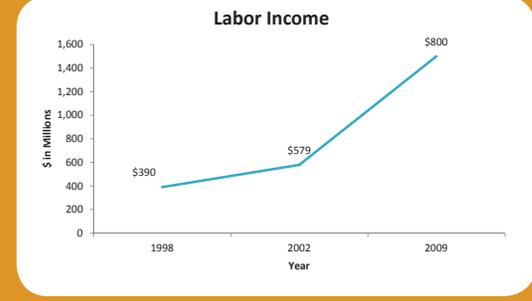
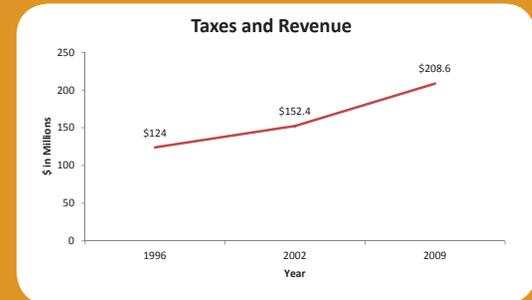
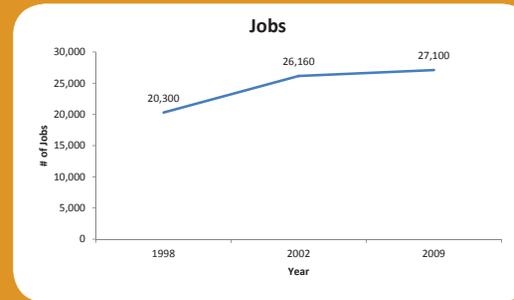
Since the gold rush of the 1880s and John Muir's visit to Glacier Bay in 1879, the allure of Alaska as a vacation destination continues to grow. World-class wildlife, cultural tourism, and scenic beauty place the tourism sector as a key fixture of Alaska's economy. Although visitor numbers fell three straight years between 2008 and 2010, the industry has more recently demonstrated signs of recovery, including increases in: non-resident traffic on the Alaska Marine Highway System; vehicle and RV rental taxes; summer domestic air market visitors; and, bed taxes in some communities.

## Opportunities

Capitalizing on existing and emerging opportunities will ensure future growth in the Alaska visitor industry:

- Maintain a positive image of Alaska in the market by providing sustained funding for tourism marketing programs.
- Grow per person spending by increasing the awareness and sales of Alaskan products.
- Work with communities and visitor industry to expand tourism opportunities to rural Alaska. Identify and develop cultural tourism products and opportunities, while increasing cultural sensitivity.
- Prioritize infrastructure improvements to increase access, provide basic visitor services, establish a base for private investment, and provide increased destination management capability.
- Create a more favorable and stable business environment by improving access to public lands, encouraging permitting flexibility, and increasing recreation opportunities.

## Tourism Trends



Visitors examining Alaskan souvenirs

## Challenges

- National and global economic recession impacts consumer confidence, disposable income, and leisure travel. Consequently, summer visitor numbers fell for the third straight year in 2010.
- Finding the right balance for taxing and assessing fees on the visitor industry is also a challenge. When fees are excessive, less costly destinations become more attractive. Consequently, Alaska's cruise passenger vessel (CPV) fee was a factor in the 14.5 percent decline in cruise visitors in 2010. At the request of Governor Parnell and the visitor industry, the legislature reduced the CPV fee in 2010. Encouraged by the adjustment in the fee and increased destination marketing funds, cruise lines are pledging more ships for future seasons.
- The rising cost of fuel hampered growth and caused upward price pressure for goods and services, especially marine and aviation tour products.
- Resource management decisions may reduce sport fish opportunities in Alaska. Halibut charter operators are facing reductions in the number and size of halibut that clients may keep.
- Businesses depend on a predictable and consistent operating environment. Permitting processes that align with business planning timeframes, provide commercial operators with fair and equitable access to public resources, and are adaptable to a range of business operations are needed to ensure a conducive business climate.

## Outlook

The United States Travel Industry Association anticipates total domestic visitors in the U.S. will reach a record two billion person trips in 2011 and exceed \$800 billion in travel spending for the first time. The forecast for domestic leisure travel is for modest growth (1% - 2%) through 2014. International travel to the U.S., including Canada and Mexico, is expected to peak at 62 million person trips in 2011, or eight percent growth over 2010. International and overseas arrivals to the U.S. are expected to grow three percent and four percent, respectively, in 2012 and both four percent in 2013.

Over the next ten years, tourism employment growth appears likely to continue at a modest rate. According to the Alaska Department of Labor and Workforce Development, about one in ten Alaska jobs are in the leisure and hospitality sector, with growth averaging two percent each year (*Trends, June 2011 Edition*).

## Special Topic: Cruising Alaska

Cruise Line International Association (CLIA) research says Americans are more aware of cruise vacations than in the past. Almost one-quarter of the U.S. population claims to be a cruiser (i.e., someone who has taken a cruise in the past). About 50 million people say they intend to cruise within the next three years. Alaska ranks second as the most desired cruise destination, behind the Caribbean. Research also indicates cruisers use cruise vacations to sample destinations they may wish to visit again.

Alaska businesses, communities, and regional marketing organizations can capitalize on the intention for repeat visitation by encouraging cruisers to return and visit other Alaska destinations and communities.

Nearly one quarter of cruise visitors intend to return in the next five years.

Among cruisers, those touring on small ships make up a fraction of Alaska's cruise volume, but these ships significantly impact the communities they visit. Smaller ships are more likely to visit ports, which are not frequented by larger ships. In addition, passengers on these ships have a greater per-person economic impact because they often overnight in their embarkation and/or disembarkation port. Central Southeast Alaska communities have identified the small cruise ship and yacht sector as one of the region's strongest opportunities and promising future markets.

# TOURISM: Discussion

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# TIMBER: At a Glance

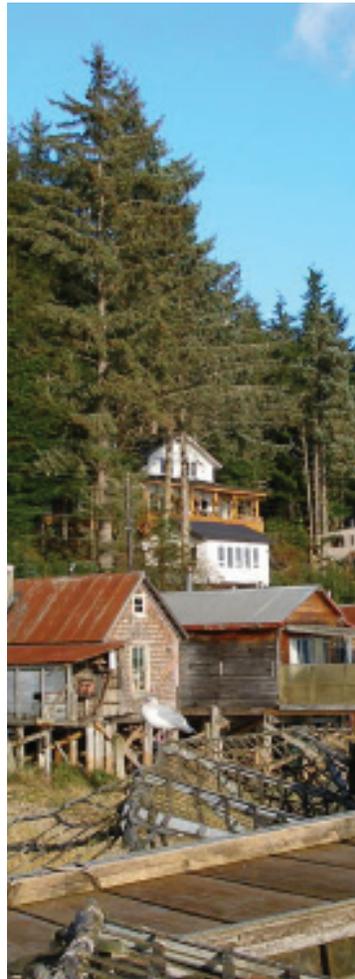
Alaska's forest products industry continues to contract due to declining timber supply, especially on United States Forest Service (USFS) lands in the Tongass National Forest. Timber harvests from private lands increased for the third year in a row, but overall Tongass supply is trending downward. In an effort to assist the embattled Southeast timber industry, lease sales for state lands have increased while federal timber supply continues to fall short of approved levels prescribed in forest management plans.

## Spotlight: Tenakee Logging Company - Succeeding in Southeast

With a close-knit population of 131 (U.S. Census Bureau, 2010), Tenakee Springs is a small lifestyle community located on Chichagof Island in Southeast Alaska. It is one of 34 communities located in the Tongass National Forest, the nation's largest forest with a significant amount of old-growth timber. Like many Southeast communities, Tenakee Springs has a small mill that serves the local market. Tenakee Logging Company is owned and operated by resident Gordon Chew and family. Often referred to as a "micro-mill" specializing in custom milling, Tenakee Logging is surviving amid a climate of challenging national forest policies and management practices. Tenakee Logging harvests and mills wood for local use including commercial and

residential construction, arts and crafts, and musicians. Through ongoing discussion and collaboration with the USFS, Tenakee Logging obtains timber sales on the road system with enough volume to build houses, decks, and public facilities for the community.

Tenakee Logging Company and similar businesses are critical to the future of towns like Tenakee Springs. Unlike the majority of Southeast communities, Tenakee Springs' population grew over the past two decades with 11 percent and 26 percent increases, respectively. Small businesses, with strong entrepreneurial spirit and a savvy business plan, will succeed during difficult times and serve a critical role in keeping Southeast Alaska communities alive and well.



Tenakee Springs, courtesy of Tenakee Springs Business Association

## 2010 Timber Indicators

### Gross State Product

\$135 M

### Exports

\$117.1 M

### Jobs

619

### Alaska Harvest

184 million board feet

### Harvest Value

\$112.3 M

### Alaska Division of Forestry Timber Volume Sold

12.5 million board feet

There is potential for new growth and development within Alaska's timber industry.

# TIMBER: At a Glance

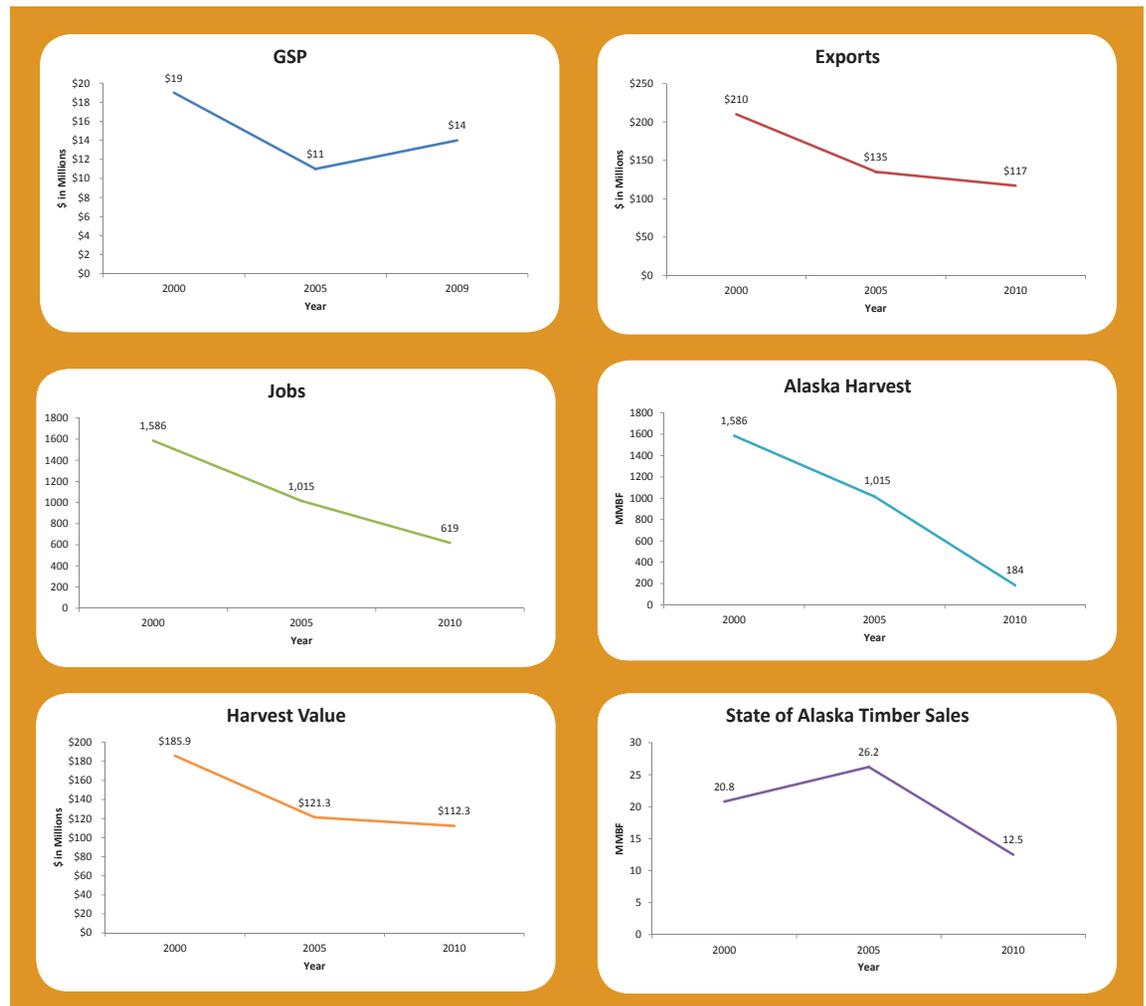
The State of Alaska is working to bolster the Southeast timber industry through agency attention, expansion of new state forests, and by challenging federal policies limiting economic opportunities. The State of Alaska continues to press the USFS to meet its obligations under the 2008 Tongass Land and Resource Management Plan (TLMP). The Alaska Division of Forestry is increasing timber sales from state-owned and-managed forests across Alaska, but offerings are unable to meet full industry demand for timber supply. Governor Sean Parnell established the Alaska Timber Jobs Task Force via Administrative Order 258 in May 2011, to provide increased focus on the timber industry, study forest management practices, and increase economic timber harvest opportunities for Alaskans.

## Opportunities

There is potential for new growth and development within Alaska's timber industry.

- Changing dynamics of the Alaska timber industry is paving the way for increased development of value-added wood products. As access to timber resources continues to decline, many Alaska businesses are changing their structure to create value-added products to meet local demand.
- High energy costs across Alaska are fueling increased market demand for wood energy. Through various levels of drying and/or processing, woody biomass offers a wide variety of alternative fuel types including wood pellets, briquettes, cord wood, wood chips, and wood flour.
- Focused effort on new product development for both domestic and export use. A development program that funds focused research in manufacturing techniques and alternative uses is one tool to expedite the success of innovative wood products.
- Increased focus on marketing and branding as many local timber and wood product businesses request assistance in reaching new markets and increasing promotion of their product(s). With the changing climate of the timber industry, businesses are looking to meet local and regional market demands and need support in building awareness of their efforts, abilities, and products.

## Forest Product Trends



# TIMBER: Discussion

## Challenges

The future of the forest products industry is contingent upon access to economic timber resources, maintaining a skilled workforce, reinvesting in industry infrastructure, and developing new markets. While pursuing reliable access to timber resources, emerging opportunities and industry adaptation to small scale, value-added niche businesses continues to transform the industry.

- Tongass National Forest timber supply remains a top challenge as the Southeast timber industry and wood product businesses operate in an uncertain business climate and without sufficient supply. At only 50,000 acres, the recently-established Southeast State Forest is small and unable to replace the total volume of federal timber supply on a sustained basis.
- Workforce development is a top challenge and businesses are concerned by outmigration, attrition, retirement, and forced layoff of a skilled workforce. There are no timber workforce development or recruitment efforts to support current demand or grow a future timber workforce. Workforce development efforts are needed to foster new as well as future generations of skilled timber industry workers.
- Physical infrastructure is aging as the equipment and mills used for large-volume tree falling, hauling, and milling are becoming antiquated. Investment and market-driven entrepreneurship are needed to foster new businesses.
- Developing competitive markets, manufacturing quality products, and making full use of wood products throughout the industry will assist in meeting the demands of tomorrow's timber industry.

## Outlook

The industry's success is primarily dependant on two factors: 1) the ability of large export-oriented businesses to maintain log supply; and 2) the ability of small mills and wood product manufacturers to compete for timber sales and maintain overall business viability.

Larger, more established timber exporters are dependent upon predictable and economically-viable lease sales on federal forest lands. The USFS is pursuing a policy of transitioning the Tongass National Forest from old growth to second growth timber sales. Alaska's timber industry indicates second growth timber will not support a fully-integrated timber industry, including direct and indirect timber businesses and jobs. The State of Alaska continues to promote local use of forest products, supports value-added product development, works with private land owners, and advocates for consistent timber supply

for timber-dependent communities and businesses. The smaller, high-value added forest product manufacturers need improved access to long-term timber sales. Timber sales are often not conducive to small operator needs, leaving them unable to achieve a dependable raw material supply. Small businesses are also susceptible to the ordinary vagaries of running any business. Primary concerns include affordable access to raw material, stable markets, product development, business management, product marketing, transportation costs, and maintaining a qualified workforce.



Timber Task Force, Coffman Cove

# TIMBER: Discussion

## Special Topic: Policies, Process, and Business

The timber industry, like other Alaska industries, is vital to the economic success of many communities. The federal government owns over 50 percent of Alaska's timber lands and over 90 percent in the Southeast region. Federal policies and process often restrict supply, strangling the industry. Slow, inconsistent, and unrealistic federal policies and forest management practices create an uncertain environment that impedes successful business operation and the likelihood of future investment. Alaska's forest industry is hit hard in this environment and is struggling for survival in its weakened state.

There are over 400 forest product businesses across Alaska. Alaska forest product businesses can be broken into four specific business types ranging from timber harvesting activities, to sawmill processing, to value-added manufacturing. Additional wood product businesses include a wide array of forest support activities that occur along the harvest to manufacturing industry continuum. Notably, timber tract operations are approximately one-quarter (27%) of all wood product businesses, followed by sawmills (13%) and forestry support (13%). All types of product manufacturing, from household goods to packing materials, comprise 47 percent of all Alaska wood product businesses.

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Small businesses, with a strong entrepreneurial spirit and a savvy business plan, will succeed during difficult times and serve a critical role in keeping Southeast Alaska communities alive and well.



Forestry workers, courtesy of Sealaska

# AGRICULTURE: At a Glance

Alaska's agriculture industry is small compared to the rest of the nation, accounting for less than one percent of the total annual value of U.S. agricultural receipts. The total value of Alaska's agriculture products has remained generally flat for the last decade. Due to high operating costs, Alaska's farmers sell to the local market, competing against non-Alaska foods produced at a lower cost.

## Spotlight: Blossoming Peony Industry

Renowned for its size, fragrance, and vase life, peonies are prized by bridal and event industries. Demand for Alaska peonies is strong because Alaska peonies bloom primarily in July and August when other growing seasons around the world are dormant. As a result, Alaska peonies are sought by domestic and international buyers. Over 39 varieties of peony are grown in Alaska. Seventeen peony farmers are classified as commercial growers, producing a large volume of blossoms on an annual basis. More than 60 additional farms are in development.



Fritz Creek Pink Peony



Tractor with Pioneer Peak in the background, courtesy of DNR

## 2010 Agriculture Indicators

### Gross State Product

\$30.8 M

### Farms

680

### Organic Certified Farms

3

### Farmers Markets

33

### Peony Farms

55

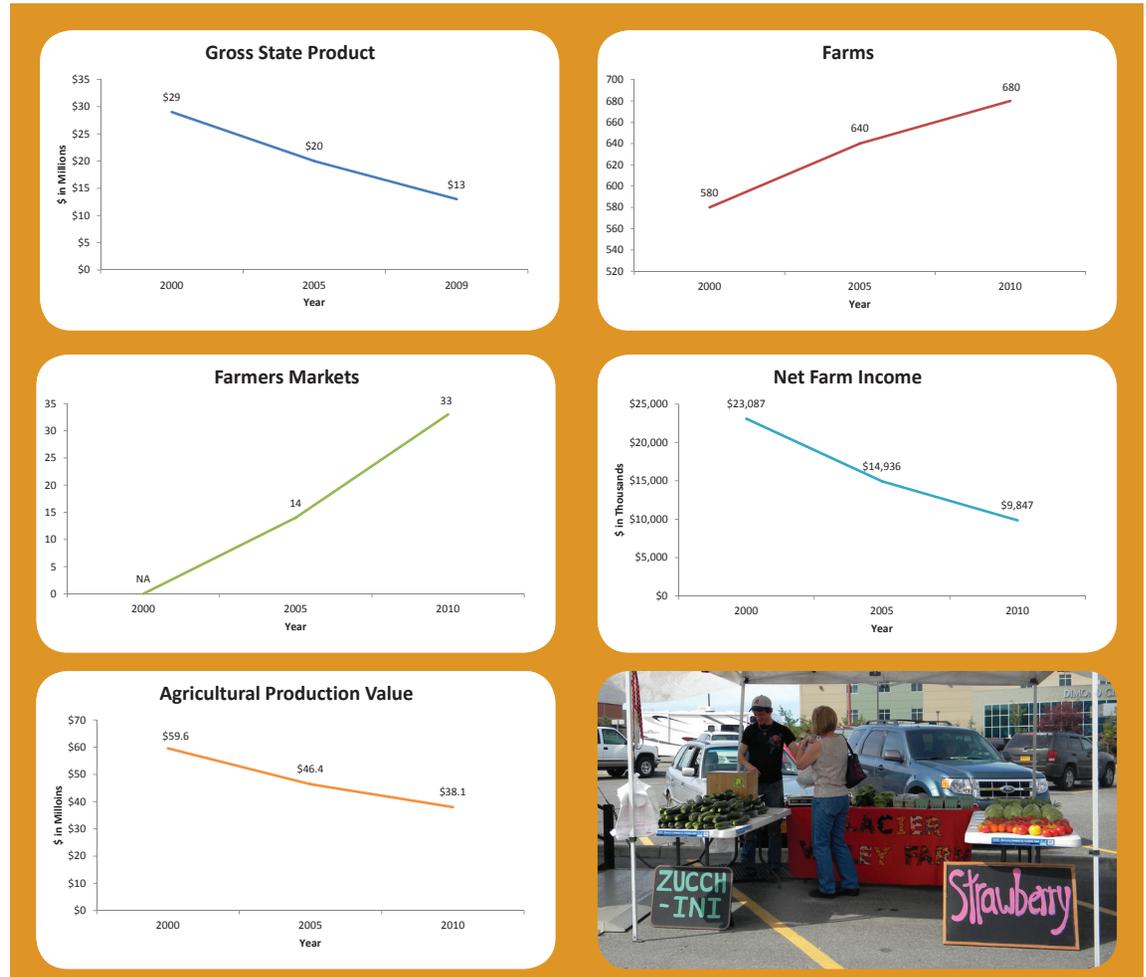
# AGRICULTURE: At a Glance

Alaska's agricultural production is mostly crops, which accounts for 77 percent of the state's total agriculture receipts, with livestock and associated products accounting for the remaining 23 percent. 2010 brought mixed results for crop and livestock production. Commercial scale crop production is anticipated to decrease as a result of more than 30 days of consecutive rain and cool weather during the 2010 harvest. Demand for locally-raised meat resulted in increased beef and hog production. In total, cash receipts to farmers totaled \$30.8 million in 2010, representing an estimated two to three percent of Alaska's total food needs.

## Opportunities

- Escalating shipping costs limits opportunity for agriculture exports; conversely, high shipping costs serve as a disincentive for imports, creating an advantage for local farmers
- New developments including peony production, value-added products, and a flour mill in Delta Junction open new avenues for growth.
- Increasing consumer demand for greater access to local foods has increased support for Alaska farmers that are producing more nutritious, less processed foods. The "local food movement" provides
  - a unique platform for entrepreneurial farmers, as evidenced by an increase in farmers markets and community-supported agriculture businesses.
  - Increasing research and use of innovative agricultural practices and tools like greenhouses, high tunnels, and salmon fertilizer have the potential to improve yields for Alaska farms.
  - Alaska remains a relatively pesticide free-zone and can capitalize on its growing environment to seek higher margins for crop and livestock production.

## Agriculture Trends



# AGRICULTURE: Discussion

## Challenges

- High input costs remain a critical problem for Alaska agriculture. Large agri-businesses are able to produce and ship food to Alaska at a lower cost than locally-grown food. Agriculture is a relatively undeveloped industry and supporting long-term growth will require strategic planning and investment.
- Lack of local support industries and agriculture infrastructure including fertilizer, pesticides, machinery, and other durable goods. Furthermore, input costs are extremely volatile due to fuel costs and the necessity of importing supplies from the Lower 48.
- Growers indicate more agricultural lands need to be made available in order to increase production.
- Lack of a skilled labor force is also a limiting factor. Encouraging new farmers to enter the industry will be critical to the long-term success of Alaska's agriculture industry.
- Limited outlets for USDA-certified livestock processing in Southcentral Alaska without Mount McKinley Meat and Sausage plant. Given the marginal nature of agriculture's secondary processing, the State of Alaska constructed and owns the Mount McKinley Meat and Sausage plant; the Alaska Division of Agriculture continues to provide an annual subsidy.

## Outlook

Although comparatively small, Alaska's agriculture industry is growing in important areas. During 2010, Alaska led the nation in growth of farmers markets per capita as 33 markets offered the public direct access to over 200 Alaskan farms and their locally-grown or produced products. The sector of the industry that focuses on small-scale production and direct marketing to the end user is a growing component of Alaska's agriculture scene.

Food security is also a growing area of concern. The majority of Alaska food (95% - 98%) is imported from the Lower 48. This dependence is a topic of discussion among leaders of the local food movement. Demand for local food continues to drive industry growth.

During 2010, Alaska led the nation in growth of farmers markets per capita.



Potato field, courtesy of DNR

## References

- United States Department of Agriculture, Economic Research Service
- United States Department of Commerce, Bureau of Economic Analysis

# SPECIAL TOPIC: Federal Spending

Federal spending has a significant impact on Alaska's statewide, regional, and local economies. Federal funds contribute to military and federal government employment, as well as provide support for specific in-state programs and projects. Federal spending to build local projects and infrastructure also employs many rural and urban residents for direct and indirect planning, design, and construction jobs. In many cases, state dollars are also used to leverage federal funds in matching programs helping to improve Alaska communities.

Federal spending in Alaska has been on the rise since 2000. Most notable, the American Recovery and Reinvestment Act (ARRA) of 2009 resulted in a 48 percent increase in federal funding. Between 2009 and 2010, ARRA funding declined, but still remained significantly higher than pre-ARRA spending.

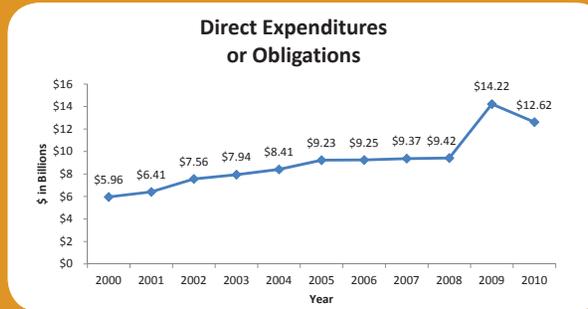
During 2010, federal spending per capita in Alaska was \$20,351. Alaska currently ranks first in total per capita federal spending, followed by Virginia and Maryland. Alaska ranks first in grants, second in salaries and wages, and

fourth in procurement. In addition to direct expenditures, the federal government is also a significant employer and landowner in Alaska. The federal government is Alaska's largest landowner with 60 percent of Alaska total area including national parks, refuges, national forests, military installations, and the North Slope National Petroleum Reserve (ADNR, 2000). A strong federal presence spanning land management, military, and numerous public services also leads to significant employment opportunities as 40,000 Alaskans were on the federal payroll during 2010 (ADOLWD, 2012).

## References

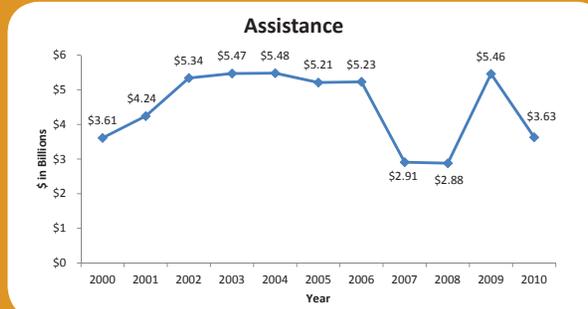
- United States Department of Commerce, Census Bureau. 2011. *Consolidated Federal Funds Report for Fiscal Year 2010: State and County Areas*. CFFR/10
- Alaska Department of Natural Resources (ADNR), Division of Mining, Land, and Water. 2000. *Land Ownership in Alaska Fact Sheet*. March 2000
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## 2010 Federal Spending Indicators



**Federal Spending**

\$12.62 B



**2010 Federal Spending**

-11%



**Per Capita Spending**

\$20,351

**Per Capita Rural Spending Rank**

#1

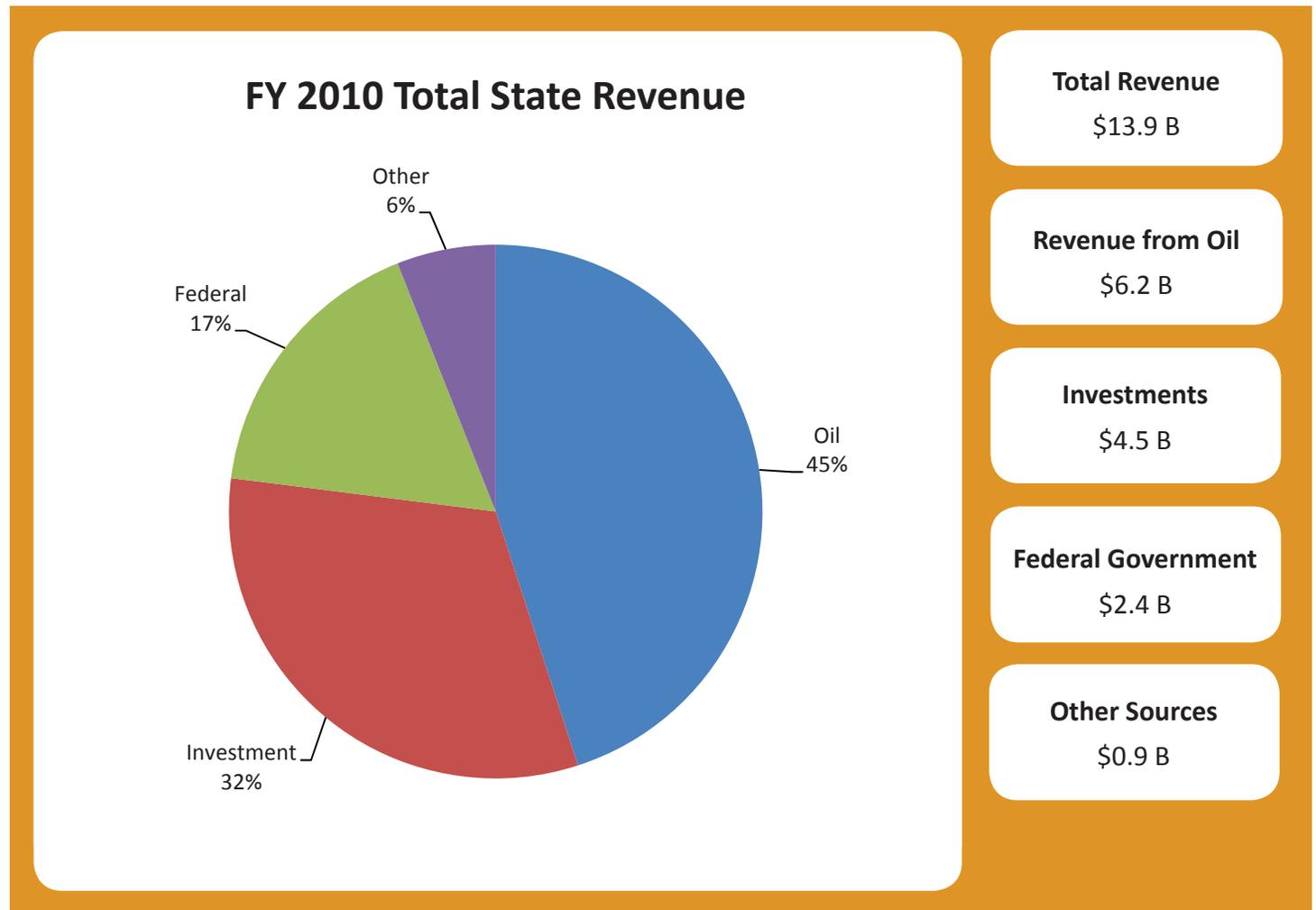
# SPECIAL TOPIC: State Revenue

Total state revenue is generated by four major sources: oil, investment, federal government, and other revenue sources including taxes, charges for services, licenses, permits, fines, and forfeitures. Total state revenue is calculated by summing all individual sources of revenue, including investments held by the Alaska Permanent Fund and other investment accounts. Governments calculate investment gains and losses based on the change in value of assets for the corresponding fiscal year. Due to fluctuating markets, changes in asset values reflect either gains or losses; however, those gains and losses are considered “paper” gains or losses and remain unrealized until assets are sold.

## Spotlight: Oil Revenue

Oil revenue continues to be the most significant source of revenue for the State of Alaska and is projected to provide more than 88 percent of General Purpose Unrestricted Revenue through fiscal year 2021. However, production of North Slope oil and natural gas is declining. Oil production peaked during fiscal year 1988 with 2.01 million barrels per day. Since that time, production has declined nearly 70 percent while the market price has increased dramatically. High oil prices continue to mask the impacts of declining production. Lower oil prices, in combination with reduced output volume, will eventually lead to future budget shortfalls. Alaska North Slope (ANS) output is projected to average approximately 0.57 million barrels per day in coming years.

## 2010 State Revenue Indicators



# SPECIAL TOPIC: State Revenue

Fiscal year 2010 yielded positive news regarding the State of Alaska's total revenue. Total state revenue recovered to pre-recession levels, marking the seventh straight year of revenue surplus. The effect of higher prevailing oil prices continues to insulate state coffers from the impact of reduced levels of production.

## Total State Revenue

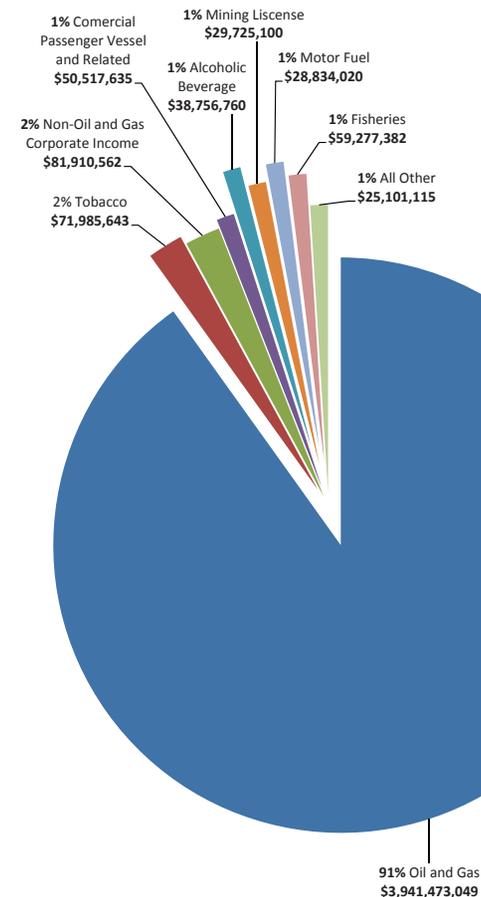
Total state revenue totaled \$13.9 billion during fiscal year 2010, a significant increase from fiscal year 2009, when state revenue fell to \$2.5 billion, primarily a result of \$6.6 billion in investment losses. In 2009, lower oil prices, coupled with a rough investment climate, led to a decrease in total state revenue. Steady oil prices, strong investment returns, and continued increases in federal stimulus spending yielded an increase in total revenue from 2009 to 2010.

During fiscal year 2010, Alaska's oil industry contributed \$6.2 billion to state revenue via royalty income and taxes, while federal outlays contributed \$2.4 billion. Other revenue, including non-petroleum taxes, fees, fines, rents, and royalties, added \$0.9 billion. After experiencing an unrealized loss of \$6.6 billion during fiscal year 2009, investment revenue soared during fiscal year 2010, contributing \$4.5 billion to state revenue.

## Taxation

Another main source of state revenue comes from tax collections, which totaled \$4.3 billion during fiscal year 2010 – an increase from 2009, when \$4.2 billion was collected. The main contributor to state tax revenue is the oil and gas industry, which paid a total of \$3.9 billion to the state, accounting for 91 percent of all state tax revenue. Considering non-petroleum tax sources, corporate income taxes provided the largest contribution, with a total of \$82 million (2%) followed by tobacco taxes of nearly \$72 million (2%). The commercial passenger vessel tax and large passenger vessel gambling tax collected a joint total of \$51 million (1%) and fisheries-related taxation collected a combined \$59 million (1%).

2010 Taxes Collected by the State of Alaska



## References

- State of Alaska, Department of Revenue, Tax Division, 2009. *2009 Annual Report*
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- State of Alaska, Department of Revenue, Tax Division, 2010. *Fall 2011 Forecast*

# SPECIAL TOPIC: Permanent Fund

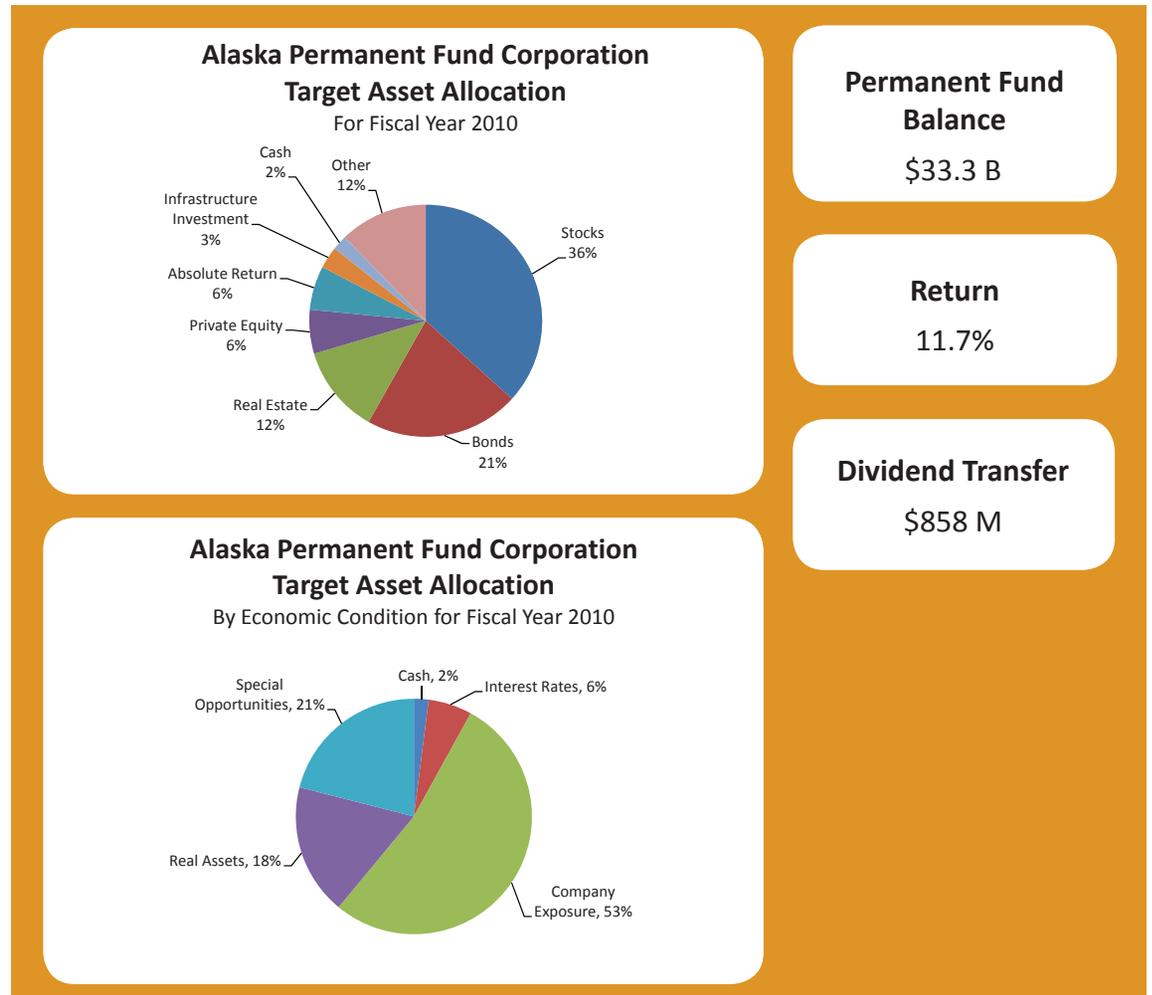
After two years of negative returns and extreme volatility, financial markets began to recover during 2010, providing the State of Alaska Permanent Fund (Fund) with a positive return of nearly 12 percent.

## Asset Allocation

Alaska state law requires that the Fund be managed to serve Alaskans of all generations, including future generations. Consequently, the Fund's portfolio must be designed for sustainability over time. With negative returns in the recent past and continued economic uncertainty, the Permanent Fund Board of Trustees adopted a new method of categorizing the Fund's assets prior to the start of fiscal year 2010. This shift did not change investments,

but rather changed how investments are viewed to better understand overall risk exposure. When assessing risk, the Board of Trustees decided it is more important to evaluate overall exposure to corporations rather than assess stocks and bonds separately. Also new to the Fund is maintaining a two percent allocation to cash and development of a risk "dashboard" as a means of visualizing overall risk exposure across all asset classes.

## 2010 Permanent Fund Indicators



# SPECIAL TOPIC: Permanent Fund

## Performance

At the conclusion of fiscal year 2010, the Fund balance was valued at \$33.3 billion, an 11.7 percent increase over fiscal year 2009. The Fund's performance was ahead of the targeted rate of return of nine percent. All but one of the Fund's asset classes had positive returns for the period. The U.S. stock portfolio returned 15.9 percent, the non-U.S. portfolio returned 11.8 percent, and the global portfolio returned 11.6 percent.

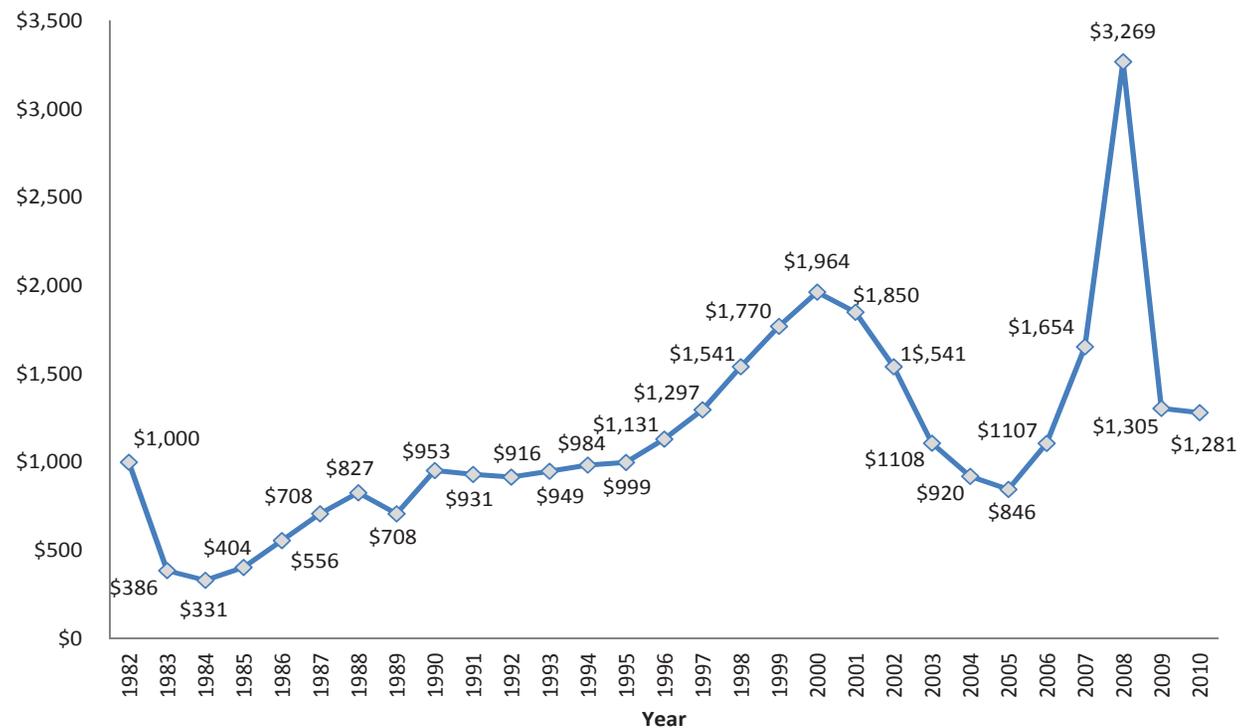
During fiscal year 2010, the Fund earned \$1.6 billion in statutory net income. A five-year net income average is used to calculate revenue available for dividend distributions. During 2010, the Fund transferred \$858

million to the State of Alaska's Permanent Fund Dividend Division to pay dividends to eligible Alaska residents.

Volatility in the world economy, which began in 2008 and continued into 2009, significantly impacted

financial markets and led to two years of negative returns to the Fund. Fortunately, economic recovery, stabilizing markets, and prudent financial management returned the Fund to a robust growth profile.

### Annual Alaska PFD Amounts



#### References

- Alaska Permanent Fund Corporation, 2011. *Designed for Sustainability: 2010 Annual Report*

# SPECIAL TOPIC: ANCSA Corporations

In 1971, the United States Congress passed the Alaska Native Claims Settlement Act (ANCSA), creating 12 for-profit Alaska Native Corporations (ANCs). ANCSA allotted Alaska Natives 44 million acres of land and \$962.5 million, which was divided among 12 regional corporations and over 200 village corporations. These assets were invested, used to develop new businesses, or used to acquire existing businesses for the benefit of Alaska Native shareholders.

## Economic Performance

ANCs remain strong economic drivers for Alaska with 2010 total revenue surpassing \$7 billion. Although corporations continue to diversify investments, holdings, and operations across the globe, it is estimated as much as 94 percent of total revenues are attributable to government contracts that provide preference to Alaska Natives (Stricker, 2011).

The 12 regional ANCs continued strong financial performance with growth from 2009 to 2010. Total 2010 revenue for all 12 corporations increased to \$7.76 billion; total net income increased to \$370.96 million.

During 2010, the strength of their collective performance was further underscored by no individual corporation posting a loss – unlike in 2008 when the recession led to investment losses for some corporations. Losses largely occurred due to the devaluation of portfolios, not declines in business operations. During 2010, three corporations exceeded \$1 billion in total revenue, including the Arctic Slope Regional Corporation, Bristol Bay Native Corporation, and NANA Regional Corporation (ANCSA Regional Association, 2010).

The economic impact of ANCSA goes beyond the 12 regional corporations. Over 200 village corporations were also incorporated for the benefit of local shareholders. It is estimated 169 village corporations are currently active due to mergers, partitioning to regional ANCs, or discontinued operations. Several village corporations have achieved economic success rivaling the largest regional ANCs. Notably, village corporations also play an important role in the rural economy, often as the owner/operators of the local fuel service, the grocery store, and other important local businesses.

## 2010 ANCSA Corporations Indicators

### Total Revenue

\$7.76 B

### Arctic Slope Regional Corporation

\$2.33 B

### NANA Regional Corporation

\$1.59 B

### Bristol Bay Native Corporation

\$1.38 B



Tlingits don traditional regalia in Haines

# SPECIAL TOPIC: ANCSA Corporations

## Shareholder Returns

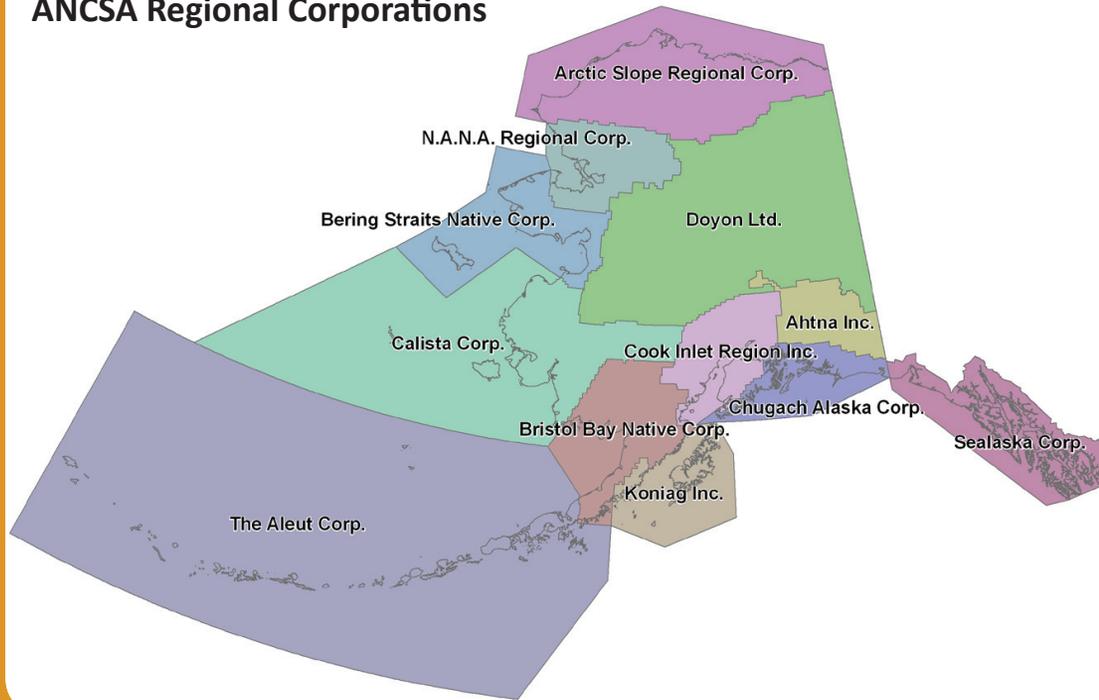
ANCSA tasked corporations with providing financial and social benefits for shareholders including dividends, employment opportunities, and preservation of culture. Corporations invested in multiple businesses with the goal of maximizing returns to shareholders. Corporate operations in Alaska and around the globe include government services, construction, real estate, mining, tourism, technology, and energy. During 2010, shareholders received dividends ranging from \$2.35 per share (Bering Straits Native Corporation) to \$51.83 per share (Arctic Slope Regional Corporation). The continued financial growth of these corporations is beneficial to Alaska's local, regional, and statewide economies.

Alaska Native Claims Settlement Act Regional Corporations					
ANCSA Corporation	Region	Total Revenue [Millions]	Net Income* [Millions]	Approximate Shareholders	Dividend per Share
<b>Ahtna Incorporated</b>	Cantwell to Mentasta to Harvard Glacier to Chitina River	\$243.4	\$1.74	1,600	\$4.00
<b>Aleut Corporation</b>	Alaska Peninsula to Aleutian, Shumagin, and Pribilof Islands	\$159.4	\$26.70	3,600	\$20.00
<b>Arctic Slope Regional Corporation</b>	North Slope region	\$2,331.7	\$164.40	11,000	\$51.83
<b>Bering Straits Native Corporation</b>	Nome and Seward Peninsula	\$190.3	\$6.60	6,700	\$2.35
<b>Bristol Bay Native Corporation</b>	34 million acres in the Bristol Bay region	\$1,382.4	\$31.90	8,600	\$13.80
<b>Calista Corporation</b>	56,000 square miles in Southwest Alaska	\$234.9	\$18.30	13,000	\$2.75
<b>Chugach Alaska Corporation</b>	Prince William Sound	\$937.0	\$26.50	2,300	\$41.92
<b>Cook Inlet Region Incorporated</b>	38,000 square miles in Southcentral Alaska	\$188.0	\$16.80	8,100	\$35.42
<b>Doyon Limited</b>	Alaska-Canada border, westward near Norton Sound	\$280.3	\$15.70	18,000	\$4.21
<b>Koniag Incorporated</b>	Kodiak Island	\$149.6	\$6.40	3,700	\$10.00
<b>NANA Regional Corporation</b>	38,000 square miles in Northwest Alaska	\$1,592.8	\$41.10	12,500	\$14.00
<b>Sealaska Corporation</b>	Largest private landowner in Southeast Alaska	\$223.8	\$15.10	20,000	\$3.56

\* Attributable to corporation.  
Note: The 13th Regional Corporation is not included within text or analysis as information regarding 2010 performance was not available at the time of printing.

# SPECIAL TOPIC: ANCSA Corporations

## ANCSA Regional Corporations



ANCs remain strong economic drivers for Alaska with 2010 total revenue surpassing \$7 billion.

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- NANA Regional Corporation, Incorporated. (2010). *Building for the Future: 2010 Annual Report*. Kotzebue, AK: Marie Greene, President and CEO
- Sealaska Corporation. (2010). *ANCSA in Our Words: 2010 Annual Report*. Juneau, AK: Chris McNeil, President and CEO

# SPECIAL TOPIC: Community Development Quota (CDQ) Program

Since 1992, the Western Alaska Community Development Quota Program has worked to establish sustainable fisheries-based economies and alleviate poverty in 65 communities on the coast of the Bering Sea.

## Western Alaska Beneficiaries

The Western Alaska Community Development Quota Program, otherwise known as the CDQ program, was established in 1992 by the North Pacific Fisheries Management Council during the allocation of Bering Sea pollock between the inshore and offshore sectors. The CDQ program was created to receive Bering Sea/Aleutian Islands (BSAI) fishery allocations that generate royalty income to benefit 65 Western Alaska communities. The communities are represented by six coalitions or CDQ entities.

Over the years, elements of the program have changed and some of the six groups have reorganized; however, the goal of creating strong sustainable fisheries-based economies in Western Alaska has remained the same.

The six CDQ groups have grown in importance to Alaska's economy. CDQs provide job opportunities and programs that positively impact represented communities. Substantial investments in fishery-related assets throughout the Bering Sea have increased the economic impact

of BSAI fisheries in Western Alaska communities and the State of Alaska. Recently, CDQ entities have made substantial investments to increase direct participation in the BSAI fisheries. In addition to jobs and economic opportunities, CDQs fund training, scholarships, and various community benefit programs. CDQ groups are organized as 501(c)4 or 501(c)3 private non-profit organizations. Some groups have set up for-profit development subsidiaries with the goal of returning investment dividends for non-profit activities.

## 2010 CDQ Program Indicators

### Total Assets

\$864 M

### Total Revenue

\$415 M

### Increase in Total Asset Value

25%

### Training and Scholarship Programs

\$2.6 M

### Funds Paid to Local Fisherman by CDQ-Owned Processors

\$24.7 M

### In-Region Direct Wages

\$25 M



Crab Catch

# SPECIAL TOPIC: Community Development Quota (CDQ) Program

## Performance

In 2010, total assets held by CDQs entities equaled \$864 million, with net assets of \$738 million at year-end – an increase of 25 percent and three percent, respectively. Total CDQ revenue increased 58 percent between 2009 and 2010 to \$415 million. During 2010, \$2.6 million was invested in training and scholarship programs to prepare residents for job opportunities.

CDQ groups are significant employers. In-region direct wages paid by CDQ groups totaled \$25 million in 2010. CDQ-owned processors paid an additional \$24.7 million to local fishermen.

## References

- Western Alaska Community Development Association, 2010. *Western Alaska Community Development Quota Program: Supporting the Advancement of Bering Sea Communities. 2010 CDQ Sector Report*



# SPECIAL TOPIC: International Trade

Alaska's 2010 exports reached \$4.2 billion, the highest year ever for state exports. In 2010, Alaska ranked 44th in the U.S. in export value, but was 13th among U.S. states for rate of increase. On a per capita level, Alaska ranks in the top ten exporting states. Alaska's exports were 0.33 percent of the nation's exports of \$1.278 trillion in 2010. Both exports and foreign direct investment have been important to Alaska for more than six decades.

## Exports

During 2010, exports increased significantly, 27 percent over 2009. The U.S. average increase in 2010 exports was 21 percent. In 2010, Alaska's exporting performance bested the national average. Alaska's top export market in 2010 was Japan, followed by China, South Korea, Canada, Switzerland, and Germany.

In 2010, the value of Alaska's annual seafood exports totaled \$1.8 billion, up 12 percent, buoyed in part by the best salmon harvest in 18 years. Two countries accounted for more than one billion dollars of the 2010 seafood export: Japan and China. China has been steadily growing in importance in Alaska's seafood exports and in 2010 was up 23 percent over the previous year.

Japan and China remain extremely important for Alaska's seafood exports.

However, over the past decade, Alaska seafood has found its way into more countries than ever before. In 1999, Alaska seafood exports to Europe accounted for less than five percent of the total exports. In 2010, European markets accounted for over 22 percent of the value of Alaska's seafood exports. Demand in Europe for Alaska seafood is linked to the value those markets place on healthy eating, food traceability, sustainability of fisheries, and the strength of the Euro currency.

The relatively large increase in seafood export to China is due to increasing domestic demand within that country and the country's role in reprocessing for re-export. Alaska seafood is available in the retail market in more than a dozen cities in China.

## Minerals

The value of Alaska's 2010 total mineral ore exports was \$1.3 billion, up 57 percent from 2009. Zinc prices have fluctuated greatly in recent years, and 2010 prices rebounded considerably over 2009. Alaska's zinc and lead ore exports accounted for the majority of mineral export value. Copper ores mined in Canada and exported via the Port of Skagway accounted for \$39 million of total exports.

Red Dog Mine, in northwest Alaska, is one of the world's largest zinc mines and accounts for 73 percent of U.S. zinc production. Alaska's ore exports have traditionally gone to

multiple international markets. In 2010, countries importing more than \$100 million of Alaska's ore included China, Japan, Canada, Korea, and Spain.

In September 2010, Kensington gold mine added 225 full-time employees to the mining industry. Kensington's parent company, Coeur Alaska, entered into a contract with China National Gold Group Corporation for the purchase of gold concentrates produced at the mine. The agreement is the first of its kind between one of China's state-owned corporations and a U.S. precious minerals mine.

### Acknowledgement

- Patricia Eckert, Associate Director for International Trade, Alaska Office of International Trade

### References

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[www.trade.alaska.gov](http://www.trade.alaska.gov)

## 2010 International Trade Indicators

### 2010 Exports

\$4.2 B

### Forest Product Exports

\$117 M

### Total Freighter Flights Between U.S. and Asia

95% pass through Ted Stevens Anchorage International Airport



Ted Stevens Anchorage International Airport, courtesy of Kaitlin Hammond

# SPECIAL TOPIC: International Trade

## Energy

Pacific Rim countries and Canada have traditionally been key markets for Alaska's energy exports. The 2010 combined value of the range of Alaska's energy exports — liquefied natural gas (LNG), refined petroleum products, and coal — totaled \$418 million, an increase of 27 percent over 2009.

The value of Alaska's LNG exports to Japan in 2010 was \$366 million, an increase of 43 percent, reflecting much higher global prices.

Coal exports were reported by the U.S. Census Bureau as \$25 million, with major shipments to Chile and Japan.

The value of 2010 exports of refined petroleum products was \$27 million, down 31 percent in a cascading effect remaining from the international economic crisis. Although international cargo airlines operating in Anchorage increased Asia-North America

flight frequencies in 2010, jet fuel demand has not yet recovered to 2007-2008 levels. Consequently, less jet fuel was produced in Alaska. Reduced jet fuel production led to a corresponding reduction in refined petroleum products for export.

## Precious Metals

The value of Alaska's precious metal exports, primarily gold, grew 40 percent on rising global prices, to \$213 million, with \$209 million of gold going to Switzerland and \$4 million to Canada. Another \$400,000 in precious stones was also exported.

## Forest Products

Alaska's 2010 export of forest products grew 33 percent to \$117 million. The China market moved into the top spot followed by Korea, Japan, Taiwan, and Canada.

## Foreign Investment

For more than 50 years, foreign investment in Alaska has resulted in jobs in the mining, forest products, seafood, visitor, and energy industries. Natural resource development requires a multi-year effort of exploration, permitting, and construction. Businesses in the United Kingdom, Japan, and Canada have invested heavily in the state.

A significant example of foreign investment in Alaska is the 12-year, \$378 million development effort from Japan's Sumitomo Metal Mining Corporation in Pogo Gold Mine. The mine provides nearly 300 local jobs in interior Alaska.

An economic impact study commissioned by the Consulate of Canada in Anchorage indicated nearly three-quarters of all Alaska mining industry exploration and development expenditures spanning 1981 to 2006 were from Canadian companies.

## International Aviation

More than 20 international air cargo carriers operate at Ted Stevens Anchorage International Airport. The State of Alaska's success in expanding regulatory authority from the federal government for international cargo transfer in Alaska provides valuable opportunities for international air cargo carriers.

International passenger air service contributes to Alaska's visitor industry, bringing thousands of visitors to the

state. In 2010, Japan Airlines continued its winter passenger charter service from Tokyo to Fairbanks, centered on tour packages that highlight northern climate visitor activities, including aurora borealis viewing. Also in 2010, Korean Air operated summer charters linking Seoul and Anchorage. Since the early 1990s, Condor has operated seasonal passenger charter service four times per week to Anchorage and Fairbanks from Frankfurt.



Air Cargo

# Special Topic: Alaska's Developing Film Industry

Alaska offers unique production value and a more exotic backdrop than any other location across the globe. The domestic and international film industry continues to produce films about Alaska. In the past, however, all too often the actual film production occurred elsewhere.

As of 2009, the motion picture and sound recording studio's contribution to Alaska's gross state product totaled \$14 million, a consistent figure over the last decade. Meanwhile neighboring British Columbia enjoys over \$1 billion in annual production expenditures. British Columbia, like many other locations, utilizes an aggressive film production incentive program to encourage production within the province. In 2008, the State of Alaska implemented a film tax credit program, resulting in an eight percent growth rate from 2008 to 2009.

## Background

In the 1980s and 1990s, the State of Alaska Film Office promoted Alaska as a location for filming. Several feature films were shot in Alaska including *Runaway Train*, *White Fang*, and *On Deadly Ground*.

During the mid 1990s, funding for the film office was eliminated. Without direct promotion, many productions set in Alaska were filmed elsewhere, particularly in British Columbia. The dramatic growth in British Columbia's film industry is linked to federal and provincial incentives developed and implemented at that time.

Gross State Product from Motion Picture and Sound Recording Industries for Select Geographic Locations									
Source: Bureau of Economic Analysis (millions of current dollars)									
Area	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>United States</b>	\$47,504	\$51,613	\$48,164	\$56,278	\$56,339	\$59,631	\$62,730	\$60,979	\$59,755
Annual growth		9%	-7%	17%	0%	6%	5%	-3%	-2%
<b>California</b>	\$26,801	\$30,395	\$28,089	\$33,970	\$33,140	\$34,464	\$35,448	\$34,370*	\$33,635
Annual growth		13%	-8%	21%	-2%	4%	3%	-3%	-2%
% of US total	56%	59%	58%	60%	59%	58%	57%	56%	56%
<b>Alaska</b>	\$13	\$14	\$14	\$14	\$13	\$13	\$14	\$13*	\$14
Annual growth		8%	0%	0%	-7%	0%	8%	-7%	8%
<b>Louisiana</b>	\$143	\$176*	\$202	\$281	\$380	\$431	\$651	\$679	\$566
Annual growth		23%	15%	39%	35%	13%	51%	4%	-17%
<b>Michigan</b>	\$441	\$472	\$431	\$468	\$477	\$489	\$536	\$487*	\$447
Annual growth		7%	-9%	9%	2%	3%	10%	-9%	-8%
<b>New Mexico</b>	\$57	\$92	\$79*	\$82	\$206	\$282	\$345	\$414	\$384
Annual growth		61%	-14%	4%	151%	37%	22%	20%	-7%

\* = Denotes the year the state initiated a tax credit program

During 2010, the Alaska Film Office documented \$49.5 million in eligible program expenses for a total tax credit of \$16.1 million across 20 total productions.

# Special Topic: Alaska's Developing Film Industry

## Alaska's Revitalized Film Program

The 2008 Alaska Legislature reestablished the Alaska Film Office (AFO) within the Department of Commerce, Community, and Economic Development. Emulating the success of other regions, the legislature approved a film incentive program. With the incentive in place and a modest marketing effort, Alaska is again experiencing

growth in the film and television industry. The incentive program allows a production company to receive a transferable tax credit for up to 44 percent of their CPA-verified, qualifying expenditures. In turn, producers sell the tax credit to Alaska businesses with an existing corporate income tax liability.

Producers began taking advantage of the incentive program in 2009 with nine productions receiving a total of \$994,000 in tax credits based on eligible expenses of \$3 million. During 2010, the AFO documented \$49.5 million in eligible program expenses for a total tax credit of \$16.1 million across 20 total productions. Of the eligible expenses, \$25.2 million went to Alaska-resident crews, rentals, services, transportation, and food and lodging. Although some 2010 productions may still submit tax credit applications, the majority of 2010 spending is shown in the pie chart, including "Big Miracle," the largest film shot in Alaska to date.

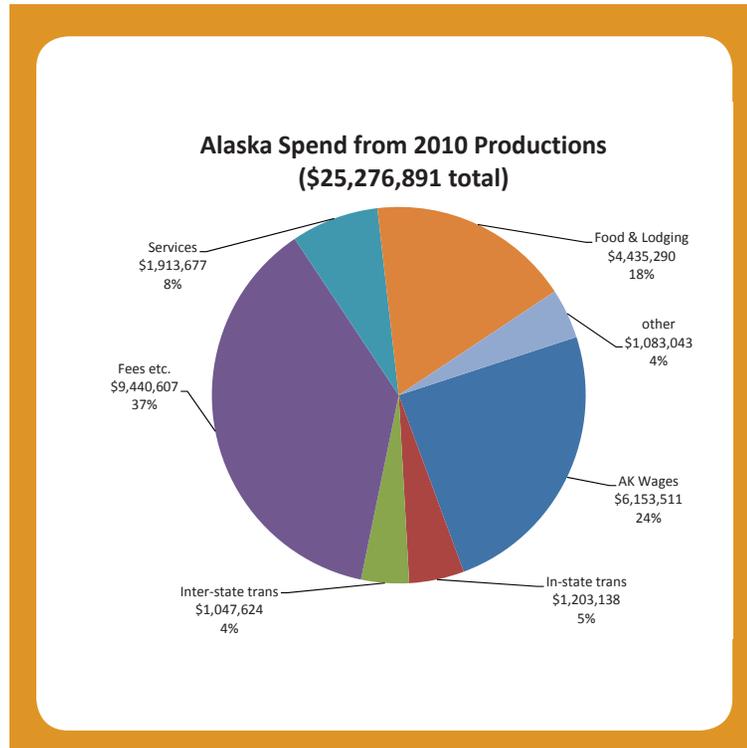
### References

- *The Impact of "Everybody Loves Whales" on Alaska's Economy* (McDowell Group, 2010)
- Note: *Everybody Loves Whales* was re-titled *Big Miracle* during 2011.

## Everyone Loves Ice

To produce the desired Barrow-like background in Anchorage, the *Big Miracle* production company spent an estimated \$500,000 on ice purchased from several seafood processing companies, which benefited

workers who were kept on the payroll for several additional months. The ability to produce ice in such large quantities was reportedly a surprise for the movie makers who were not aware of Alaska's well-developed seafood processing industry and its ice-making capacity.



*Big Miracle* promotional poster, courtesy of Universal Studios