

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON WORLD TRADE AND STATE/FEDERAL
RELATIONS

March 10, 2003

4:14 p.m.

MEMBERS PRESENT

Senator John Cowdery, Chair
Senator Robin Taylor
Senator Gene Therriault
Senator Donny Olson
Senator Gretchen Guess

MEMBERS ABSENT

Senator Ralph Seekins

COMMITTEE CALENDAR

BRIEFINGS:

NORTHERN FORUM

CIRCUMPOLAR INFRASTRUCTURE TASK FORCE

PREVIOUS ACTION

No previous action to record.

WITNESS REGISTER

Ms. Priscilla Wohl, Executive Director
The Northern Forum
Office of the Secretariat
4101 University Drive, CGC 221
Anchorage, AK 99508

Mr. Mead Treadwell
Managing Director
Institute of the North
PO Box 101700
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ACTION NARRATIVE

TAPE 03-1, SIDE A

Number 0001

CHAIR JOHN COWDERY called the Senate Special Committee on World Trade and State/Federal Relations meeting to order at 4:14 p.m. Senators Therriault, Guess, Olson and Chair Cowdery were present at the call to order. Senator Taylor arrived shortly thereafter. Chair Cowdery announced that Senator Seekins was excused from a call of the Senate. He informed members that Ms. Priscilla Wohl and Mr. Mead Treadwell would be presenting to the committee.

MS. PRISCILLA WOHL, Executive Director of the Northern Forum, explained that the Northern Forum is an association of state and regional governments around the North. The State of Alaska has been a member of the forum since it was founded in 1991. The forum is presently comprised of 29 member regions; four are inactive and may lose membership in April. The other members are active, and membership is growing. The forum anticipates adding four new members from Northern Canada in April and it has letters of interest from ministers or premiers from Northern Quebec, Labrador, Northern Manitoba and Nunavut. With those members, the forum will essentially be circumpolar with a strong contingent from Russia, Northern Europe and Canada. The forum is sustained by funding from each member region in the form of dues. It has also received grants from the State of Alaska and the Hokkaido Prefecture in Japan. In the past few years, it has actively pursued grants from a variety of institutions and foundations to support the project work of the Northern Forum. Last year, U.S. Senator Stevens provided the forum with \$500,000 for specific projects. The forum hopes to get additional funding of that nature in the future.

[CHAIR COWDERY acknowledged the presence of Senator Taylor.]

MS. WOHL told members that Northern Forum projects fall under four categories: sustainable development; the environment; society and culture; and governance. The forum also recognizes a need to work on projects that focus on emergency response. Within the four program categories, the forum performs a number of different projects, based on the interests of the membership. Projects are brought forward to the Board of Governors for their approval and then proceed with the support of at least three member regions. Many of the projects are supported by a majority of the member region; Alaska has been a key participant in a number of the projects that have gone forward. During the last several years, the forum has grown in influence and activities. It is recognized as an observer of the United Nations, as a member of the Committee of NGOs within the United States, and the forum has submitted for ECOSOC [Economic and Social Council] observer status at the United Nations. The Northern Forum is

very active in the Arctic Council, made up of the eight Arctic nations that are working cooperatively on a variety of issues. The forum is a founding member and a member of the steering committee of the Network of Regional Governments for Sustainable Development that was recently formed out of the world summit on sustainable development in Johannesburg.

MS. WOHL said over the last two years, the Northern Forum has expanded the Northern Forum's operations to include 20 business members. The governors recognized that government, on its own, cannot legislate economic development, environmental protection, society and culture. These projects can only be accomplished in partnership with other institutions. The business members are from Alaska, the Lower 48 states, Russia and Finland. These business partners are finding that with the cooperation of the Northern Forum, they suddenly have an open door to business relationships around the world. A number of them have been very successful in using the Northern Forum as a tool to achieve solid business deals. For example, a small manufacturing company from Finland was able to secure \$3 million in funding to provide meat manufacturing equipment to sheep herders in Northern China. Another business has secured a \$10 million road project in China. Businesses are successfully using the Northern Forum as a tool to open doors to meet with representatives who are in a position to approve or sanction development projects.

CHAIR COWDERY told members that he attended the Northern Forum meeting in St. Petersburg, Russia. The concern at that meeting was that the Panama Canal only provides access to the East Coast and that the landowners on either side of the canal may raise the tariff to such a point that it might not be competitive to get to the East Coast.

MS. WOHL told members that Mr. Treadwell would speak about circumpolar infrastructure. The Northern Forum has been very interested in East-West transportation, both an air and a polar sea route, for a number of years now, but the circumpolar infrastructure task force is focusing quite a bit of attention on it.

CHAIR COWDERY pointed out that the Finnish have developed the most advanced icebreakers that can travel through ice nine feet thick at fourteen knots. He was told it is similar to a bottom plow in that it folds the top layer of ice underneath the lower level, causing ridges. The lower layer has greater flotation value and helps to break the ice up.

MS. WOHL told members her message is that the Northern Forum is an organization that the State of Alaska helped to find that can be used to the state's benefit, as many other regions use it. She likened it to a membership in a health club: one can pay to join but if it isn't used, no benefits will be derived. She noted the forum has produced concrete results for the members who use it. The Sakha Republic has a number of ongoing projects, one being the transfer of reindeer husbandry technology from Northern Finland to the Sakha Republic to benefit small rural communities that have no other way of supporting their industries. A number of the regions are using the Forum to encourage Northern tourism activities. The State of Alaska has been successful in using it in the past to open up lines of communication and to encourage economic development and relationships between Alaska, Sakhalin and the Yukon. She believes many of these relationships can be expanded using the forum as a tool.

CHAIR COWDERY noted the Northern Forum office is now located in the bottom floor of the Anchorage Legislative Information Office.

MS. WOHL told members the forum has four permanent staff and two interns, as well as representatives from two member regions who work in the office. The forum also has contract staff to do accounting and website work. In addition, the Northern Forum has two offices in Russia, one in Yakutsk, one in St. Petersburg, and an office in Northern Lapland.

CHAIR COWDERY informed members that he has talked to Mr. Treadwell, Ms. Wohl and staff at the World Trade Center and the Department of Community and Economic Development about coordinating staff and costs.

MS. WOHL said the Northern Forum has a multi-lingual staff and said she would be glad to do that. Her staff is experienced in working with delegations and with translation. She then provided an annual report for legislators, which contains the forum's activities in 2002 and a financial report, as well as an agenda for the upcoming general assembly at which the Prime Minister of Russia will be the keynote speaker. The Northern Forum has met with the foreign minister of Russia twice and has a very good relationship with him. She said that many of the forum's governors are in the Russian Senate or federal council and they continue to focus much of the Russian government's attention on working with other northern regions to solve problems. They have requested information from the State of Alaska on how it is

addressing rural issues, such as sanitation, energy and telemedicine. She also distributed an activities report to committee members that contains information about Northern Forum activities during the last two months and upcoming meetings. She then offered to answer questions.

CHAIR COWDERY asked the cost of Northern Forum membership fees.

MS. WOHL said the cost is \$10,000 per year for all members except those regions with a population of 100,000 or less pay \$5,000.

SENATOR OLSON referred to the negative balance on the Northern Forum's income statement and asked if the Northern Forum is in danger of being cut.

MS. WOHL said she does not think so at this time. The profit and loss in the annual report is from the prior fiscal year. This year's fiscal statement will represent a significant change because of project income and the grant from the federal government. In addition, the forum has far more business members who are contributing materially and in-kind. She said the forum's fiscal year is the same as the State of Alaska's. This year's fiscal report should show a far different situation. She emphasized that she has taken the fiscal situation, activities, and membership very seriously. If an organization continues to function with deficits and a membership that does not participate actively, there is no reason to exist. She noted that many forum members are very active and are bringing projects forward. The Sakha Republic has contributed about \$150,000 to support activities; Lapland is contributing close to \$100,000; and St. Petersburg is contributing about \$75,000. She pointed out that about 80 percent of the membership dues is spent in Alaska on salaries, rent and other services.

SENATOR OLSON asked how much federal money the forum gets.

MS. WOHL said the forum has received \$500,000 this fiscal year. It anticipates \$250,000 to \$500,000 this next fiscal year.

SENATOR OLSON asked which members are delinquent in paying dues.

MS. WOHL said delinquent members are the regions of Evenk, Nenets, Kamchatka, Magadan in Russia and Dornod, Mongolia.

CHAIR COWDERY asked if Sakhalin Island is a member.

MS. WOHL said it is a current member.

SENATOR THERRIAULT asked if anything in particular happened last year to cause the deficit.

MS. WOHL said the primary area of deficit is the result of members not paying their dues. The forum budgets for a certain level of activity so when members do not pay their dues or pay late, the result is deficit spending.

SENATOR THERRIAULT asked if any particular events caused an increase in spending.

MS. WOHL said the deficit was the result of regular, ongoing expenses.

SENATOR THERRIAULT asked Ms. Wohl what transpired at the management team meeting.

MS. WOHL explained that the management team is made up of senior staff who represent the executive committee (the chairman and four vice chairs). The management team met two weeks ago in St. Petersburg to finalize the agenda for the general assembly and it reviewed a slate of new projects that have been proposed. The board of directors will review those projects in April at the general assembly and move some of them forward. Five projects were not approved because they were too focused on a single region or did not have adequate funding.

SENATOR OLSON asked why Greenland is not an active participant.

MS. WOHL said Greenland is not an active participant for a number of reasons. Greenland is a home rule protectorate of Denmark and Denmark is represented in the Arctic Council. In addition, Greenland has a very small, poor population. To date, Greenland has felt it is not within her means to be a member of two organizations focused on northern issues. She noted she is trying to resolve their issues through partnership with the Indigenous People's Secretariat of the Arctic Council.

SENATOR OLSON asked why Fitzburgen (ph) is not a member while the other part of Norway is.

MS. WOHL said the Northern part of Norway has notified the forum that its membership is no longer active but it has not been taken off of the map yet. That area is similar to Greenland in

that it is participating in international cooperation through the Arctic Council.

SENATOR OLSON asked what the relationship of the eight nations in the Arctic Council is to the Northern Forum.

MS. WOHL explained that the Northern Forum is an association of regional governments, state governments, and it is an observer within the Arctic Council. The forum does not have a seat at the table but is allowed to participate in projects and provide input into the council's actions. She noted that during the last two years, while Finland had the chair, the Northern Forum was given quite a bit of leeway in addressing the council. The Northern Forum has acted in a consultative status that it would like to enhance and continue. The governors feel it is important that the regional governments should have a strong voice in northern issues, rather than Washington, D.C., Stockholm, Moscow or Helsinki.

CHAIR COWDERY asked Ms. Wohl to keep the committee informed of forum activities.

MS. WOHL agreed to do so and offered to forward future activity reports to members, which is updated every two months.

CHAIR COWDERY asked Ms. Wohl to share with the committee the names of her international contacts.

MS. WOHL agreed to do so.

CHAIR COWDERY thanked Ms. Wohl and asked Mr. Treadwell to present to the committee.

MR. MEAD TREADWELL, managing director of the Institute of the North at Alaska Pacific University and a commissioner on the U.S. Arctic Research Commission, introduced Mary Jane Fate, who was appointed by President Bush to sit on the U.S. Arctic Research Commission. He informed members the U.S. Arctic Research Commission advises the President and Congress on U.S. arctic research priorities, on which the U. S. spends about \$250 million per year. He also introduced Dr. John Tichotsky, a senior fellow at the Institute of the North, who will be testifying before a companion committee about a visit from the Russian duma, who will be coming to Alaska in April. He also extended best wishes from Governor Hickel, the founder of the Institute of the North and Secretary General of the Northern Forum.

In response to Senator Olson's question about the difference between the Northern Forum and the Arctic Council, MR. TREADWELL said the Northern Forum was formed first when Wally Hickel served as governor. The eight nations met on environmental issues. The [State of Alaska] urged the federal government to support regional governments and the attempts of the people who live in those areas to solve specific problems. As the federal government moved forward with the Arctic Council at the request of Canada, the [State of Alaska] pushed for additional support for region-to-region cooperation.

MR. TREADWELL said he would focus his presentation on the Circumpolar Infrastructure Task Force (CITF), which is the result of two things: a disaster and a dinner bet. The disaster occurred about four years ago when the people of the Sakha Republic were starving and freezing because regular shipments of fuel and food had not arrived. An ad hoc group of people working on international Arctic issues suggested establishing an international effort to look at transportation to the State Department. The dinner bet occurred when he was sitting next to the British observer at an Arctic Council meeting. He said to the British observer that it would be great if the eight nations would deal with something to improve the economy. The British observer bet him a steak dinner that there was no way to convince the eight Arctic nations to work on economic issues. He believes he won the bet.

MR. TREADWELL said the CITF is a project of both the Northern Forum and the Arctic Council. It was created in September of 2000 to identify opportunities for international cooperation to advance circumpolar infrastructure, aviation, maritime, land and telecommunication linkages. The secretariat of the CITF is at the Institute of the North, which is part of Alaska Pacific University, and is supported financially by the U.S. Department of Transportation, the Northern Forum and the U.S. Arctic Research Commission. He noted when he became a commissioner, he asked the U.S. Arctic Research Commission to cut off its funding so that there would be no conflict. The CITF is working on aviation, infrastructure, telecom, and marine links. It picked up people from Northern Forum regions. The Institute of the North recently did a study for the CITF on how Arctic regions connect with each other. Right now it is impossible to get to Greenland from North America on scheduled air service. That service ceased about one and one-half years ago. Last year, at the time of the Alaska Air Carriers' large convention, the CITF held a meeting of aviation experts from around the Arctic and

looked at a set of recommendations. One of those recommendations was the possibility of using mail to strengthen links between nations in the Arctic. The CITF found from the U.S. Postal Service that the amount of mail going into Russia from the western United States is substantial enough to contribute to full time air links between Alaska and the Russian Far East.

The CITF also designed an outline for a feasibility study on air routes and has been talking with the U.S. Department of Transportation about supporting that study. About four or five airlines in Alaska have shown a strong interest in establishing East-West air links, as well as a number of airlines around the world.

CHAIR COWDERY interrupted to say that Alaska Airlines is starting flight service to Adak once per week. He noted that to get to Sakhalin now, one has to travel to Korea first.

MR. TREADWELL acknowledged that the current route is quite roundabout. He said that a member of the Alaska Air Group Board of Directors was present at the meeting.

MS. MARY JANE FATE told members that Alaska Airlines has added a route to Adak and that it has been very proactive about looking at linkage of communities.

MR. TREADWELL said that ERA, Linden, Northern Air Cargo, Evergreen and Alaska Airlines, as well as a number of smaller charter airlines, have shown interest in this route. The CITF met with a Russian representative on the aviation issue about a gateway to Sakhalin. One possibility is to meet up with Alaska Airlines in Adak, another is to meet at Anahir. At this point, the CITF is trying to stay out of the way of the private sector, but to determine what the government can do to help the private sector. So far, carriage of the mail would be a large enough potential to the revenue stream, so the CITF has been trying to get the U.S. Postal Service more involved. The post office has been very forthcoming and the CITF has planned a meeting in Moscow with Russian postal officials later in the year.

CHAIR COWDERY said he spoke with representatives at Alaska Airlines and Reeve Aleutian Airways who felt the CITF met a lot of uncertainty when it dealt with the Russian representatives.

MR. TREADWELL told the Chair that part of his presentation is from a summary presentation the CITF made for the Russian-American Pacific partnership. That group just held a meeting of

transportation experts in Anchorage. He will cover information about how each of these entities that are competing in the world market for transportation, whether that be the Trans-Siberian Railroad or the Northern Sea Route, are gradually coming to market standards. They have taken some time as the process is difficult.

MR. TREADWELL then discussed marine linkages and the major new opportunity of a northern sea route. He noted that while it is possible to deliver goods to northern communities in Europe by icebreaker, full commerce is not yet possible. He said that one way to look at the situation is the Suez Canal collects revenues of approximately \$2 billion per year. The Suez Canal ships about 144 million tons of goods per year. About 75 percent of the cargo is oil, primarily moving from the Persian Gulf to the Mediterranean. About 16 million tons of bulk cargo goes from Europe to East Asia. Studies show that shipments of 3 to 4 million tons per year would make the northern sea route economically feasible. That would require icebreaker capability at the choke points.

He pointed out that Alaska should be concerned about that for several reasons. First, in the basic issue of transportation distances, the savings in distances from the northern sea routes versus the Suez Canal is large. For example, the savings from Vancouver to Hamburg is 9,000 miles. The second issue is that climate change studies are showing that the volume of Arctic sea ice is getting thinner and is shrinking in the Arctic Ocean. He noted the executive director of the U.S. Arctic Research Commission reported the following five points to a U.S. Navy symposium:

- Within five years, the non-ice strengthened vessels will be able to traverse the northern sea route for at least two months each summer.
- Within five years, the Northwest Passage may be open for at least one month each summer.
- By 2015, both routes may remain ice-free for four to six months per year.

CHAIR COWDERY noted that he has heard that people who are traveling around the world on their yachts are looking forward to traveling through that passage. He added that he was told by the "Finns" when he visited St. Petersburg that freighters could travel through the passage without too much armor as long as one went through every few hours.

MR. TREADWELL said the sovereignty issues in the Arctic have always been interesting. The United States believes that both the northern sea route and the Northeast Passage are international waters and open to innocent passage by all vessels. The Russians and Canadians consider those routes to be internal waters and use a number of environmental protection arguments to support that position. Either way, the issue of sovereignty is one to be considered. Sovereignty issues are likely to come forward because of the Law of the Sea Treaty. Some nations who have signed that treaty are exercising their rights to make a claim for territory outside the 200-mile limits on the ocean bottom and discussed some of the problems those claims might present to the United States. NEMA now requires notices to mariners in the Arctic Ocean that the location of all buoys must be reported. The Department of Defense is expanding its studies of what it will do in an ice-free Arctic. This month the Navy will begin a two-month ice camp to test submarines and expand science in the Arctic. In addition, the residents of the Arctic have raised concerns when the icebreaker Healy headed North last year for the Shelf Basin interaction cruises. The Arctic Eskimo Whaling Commission asked that they be stopped because of a lack of consultation. The Coast Guard was not about to cede the sovereignty of the United States but a compromise was worked out whereby the icebreaker sailed west of the international dateline reducing the noise that might impact whaling.

TAPE 03-1, SIDE B

MR. TREADWELL said he brought the committee's attention to those things because the Arctic is turning into a much more active ocean. He pointed out the other political developments are that the U.S. has been studying Russia's oil and the CITF project was recently appropriated \$500,000 that it will probably share with the Northern Forum.

MR. TREADWELL said one reason the U.S. government is doing a major Russian-Arctic oil study is because the U.S. Geological Survey (USGS) did an estimate on the locations of the undiscovered oil in the world. The second largest area (after the Middle East) is the former Soviet Union where about 18 percent of the expected undiscovered oil is located. The Russian Arctic share of oil and natural gas is about 20 percent. East Greenland is also expected to have large oil reserves. He noted the Russians have created a user group for the northern sea route called Arctic Trans. He then pointed out that the

container volume of the Trans-Siberian Railroad is growing; most of the increase is from Korea, which is trying to link the railroad from South Korea to Europe. The transit time on the railroad is most crowded during the months when the northern sea route is open.

SENATOR OLSON asked if that is because there is more traffic in general.

MR. TREADWELL said that is probably correct. He said if one is looking at bringing goods out of the Russian North or supplying that area, most of the activity happens where the river meets the rail and when the rivers are ice-free.

SENATOR OLSON asked if the Trans-Siberian Railroad sees the northern sea route as a threat.

MR. TREADWELL said if one looks at the distance map, the Trans-Siberian Railroad has the edge on containers. The northern sea route is likely to get the edge on bulk and liquid cargo. He then went on to say that Dr. Tichotsky, a Cambridge-trained economist, has looked at the bond ratings for many Russian regions and has helped to focus CITF studies on what needs to be done to squeeze out the financial risk for investors. Russia is very interested in seeking outside support in that area. He then discussed the elements essential to northern sea route cooperation, which could take five years to plan and develop and another five years to meet.

MR. TREADWELL said the benefits to Alaska are the possibility of transshipments in Adak and Dutch Harbor; the issue of bringing deep draft vessels higher into the Arctic thereby lowering the price of freight; and the possibility of making Alaska's resources more competitive on the world market. He concluded by saying the CITF project has also been doing work on telecommunications. The CITF believes that cooperative efforts between northern regions could bring broadband to the parts of Alaska that do not currently have it. Telemedicine and distance learning are potential export commodities. Alaska institutions currently export health services to the Russian Far East. He noted that for most of the last century the Arctic was inaccessible because of politics, not physics. However, he expects we will gradually see a much more accessible Arctic from an international standpoint.

CHAIR COWDERY said he is very intrigued with the Northern route. He asked Mr. Treadwell if he could comment on the Finnish

opinion that if commerce was interested, the northern sea route could be kept open and that icebreakers would only be needed for a shift in the ice.

MR. TREADWELL said one thing to watch is the condition of the U.S. icebreaker fleet. The Healy, which was commissioned two years ago, has already done significant geological studies in the Arctic. He then said the Panama Canal is considering a \$5 to \$8 billion expansion to accommodate larger ships. In comparison, the capital and operations necessary to make the northern sea route a commercial route would cost less than \$1 billion.

SENATOR TAYLOR noted the U.S. ran a significant volume of freight through that area during World War II but most of the information about those programs was classified until 1995.

CHAIR COWDERY thanked Mr. Treadwell and adjourned the meeting at 5:15 p.m.