

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL**  
**TRADE AND TOURISM**

March 17, 2009

5:25 p.m.

**MEMBERS PRESENT**

Representative Jay Ramras, Chair  
Representative Nancy Dahlstrom  
Representative Reggie Joule  
Representative Mike Doogan  
Representative Lindsey Holmes  
Representative Chris Tuck

**MEMBERS ABSENT**

Representative Mike Chenault  
Representative Kyle Johansen  
Representative Mark Neuman

**COMMITTEE CALENDAR**

Department of Transportation & Public Facilities Presentation by Linda Close, Ted Stevens International Airport Marketing Manager: Anchorage International Airport as an economic engine for Anchorage & Alaska

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to report

**WITNESS REGISTER**

CHRISTINE KLEIN, Deputy Commissioner of Aviation  
Office of the Commissioner  
Department of Transportation & Public Facilities  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the presentation on the Ted Stevens Anchorage International Airport.

LINDA CLOSE, Marketing Director  
Ted Stevens Anchorage International Airport  
Department of Transportation & Public Facilities  
Anchorage, Alaska

**POSITION STATEMENT:** Gave a PowerPoint presentation on economic development at the Ted Stevens Anchorage International Airport.

KARINA PETERSEN Reporter  
KTVA CBS Channel 11  
Anchorage, Alaska

**POSITION STATEMENT:** Asked a question during the presentation.

**ACTION NARRATIVE**

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**CHAIR JAY RAMRAS** called the House Special Committee on Economic Development, International Trade and Tourism meeting to order at 5:25 p.m. Present at the call to order were Representatives Holmes, Tuck, Doogan, and Ramras. Representatives Dahlstrom and Joule arrived as the meeting was in progress.

DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES PRESENTATION BY LINDA CLOSE, TED STEVENS INTERNATIONAL AIRPORT MARKETING MANAGER: ANCHORAGE INTERNATIONAL AIRPORT AS AN ECONOMIC ENGINE FOR ANCHORAGE & ALASKA

CHAIR RAMRAS announced that the only order of business would be a presentation by the Marketing Director of the Ted Stevens Anchorage International Airport.

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CHRISTINE KLEIN, Deputy Commissioner of Aviation, Office of the Commissioner, Department of Transportation & Public Facilities, informed the committee the Alaska International Airport System (AIAS) includes the Fairbanks International Airport; in fact, the Anchorage airport would not be as "strong" without the Fairbanks airport as a diversion airport.

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LINDA CLOSE, Marketing Director, Ted Stevens Anchorage International Airport, Department of Transportation & Public Facilities, informed the committee the following presentation would give an in-depth overview of what is happening at the airport regarding economic development and trade. She began the PowerPoint presentation with a picture taken during October that showed 40 wide-body aircraft on the airport deck during a 30-minute period. Ms. Close said the airport is a huge economic engine for Anchorage accounting for one job in eight and \$850

million in annual payroll. The airport's total economic impact to Anchorage is \$2,363 billion per year, of which \$1.4 billion is garnered from fuel sales. Another \$80 billion per year supports construction activities and \$30 billion goes to hotels for crew stays.

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REPRESENTATIVE HOLMES asked whether the \$1.4 billion for fuel is money that would go to the refinery and the railroad.

MS. CLOSE explained the \$1.4 million is for fuel sales to the fuel companies.

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CHAIR RAMRAS added that the export of Jet A aviation fuel is Alaska's largest value-added industry. This is a tremendously large industry that is under a lot of pressure at this time because the price of fuel is subject to the global market. He opined Alaska refineries have to sell the fuel below cost in order to service \$600 million in bonds paid exclusively by landing fees. Representative Ramras theorized that those losses are passed along to Alaska consumers of home heating fuel and retail gasoline.

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MS. CLOSE displayed a slide titled "Cargo Carrier Overview" that listed the cargo carriers active at Anchorage airport. She advised there were ten carriers that initiated service in the last five years and four carriers that have been absorbed into other carriers in the last five years. All in all, there are fourteen new cargo carriers that entered the market in the last five years. She then displayed a list of the number of cargo carriers by home country and noted that of the fourteen U.S. carriers, ten are operating as contract carriers for foreign companies. The next slide titled "2007 ACI Cargo Traffic Stats" identified ANC as the third largest cargo airport in the world based on total cargo tonnage (Metric Tons).

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CHAIR RAMRAS recalled that 68 FedEx Corp. pilots were laid off and Flint Hills shut down one of its units due to a 30 percent decline in freight. He asked whether other airports are experiencing the same reduction in freight.

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MS. CLOSE agreed that there has been a decline "across the board, some higher, some lower ... we're not quite at 30 percent, we hit 28 percent for one month. But year over year we're not that low."

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MS. KLEIN clarified the FedEx pilots were not laid off, but relocated to other locations.

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MS. CLOSE confirmed that the 68 positions were transferred out of Anchorage; however, out of those only 17 lived in Anchorage. Moreover, FedEx still bases 425 pilots in Anchorage.

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REPRESENTATIVE TUCK recalled transportation has gone down worldwide for air freight and also for water cargo; in fact, shipping companies are having difficulty finding a place to berth their ships.

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MS. CLOSE offered that ANC charges very competitive rates and fees. A graph indicated landing fees for a 747-400 range from \$12,799.08 in Toronto to \$1,174.53 in the AIAS.

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REPRESENTATIVE DOOGAN asked whether airports that have a lot of traffic, like Memphis, charge landing fees more like Anchorage's fees.

MS. CLOSE disagreed.

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REPRESENTATIVE DOOGAN concluded Anchorage looks good against its major competitors.

MS. CLOSE said yes. She reviewed the history of passenger traffic during the last ten years. Passenger and cargo

continues to grow at ANC and FAI. The downturns in the economy such as the Japanese economic crisis and [the terrorist attacks of September 11, 2001] were followed by rebounds; however, the present downturn is unprecedented and will take a recovery period longer than nine to twelve months, she opined.

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CHAIR RAMRAS asked how much more growth can be accommodated by the airport.

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MS. KLEIN said both Anchorage and Fairbanks airports have capacity for growth; in fact, there is a great deal more land mass available than at most airports. However, the timing of aircraft schedules can be an issue.

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CHAIR RAMRAS observed [the Alaska International Airport System] has unique geography, low landing fees, a globally competitive price for jet aviation fuel, and the capacity to grow.

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MS. KLEIN said the master plan projection allows for 3 to 5 percent growth for the next 10 years.

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REPRESENTATIVE DOOGAN surmised the possible bottleneck is "getting planes on and off the ground rather than having a place to build a new cargo facility."

MS. KLEIN indicated yes.

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REPRESENTATIVE TUCK recalled discussion some years ago about moving the airport to Fire Island, and moving the air freight portion to Port MacKenzie.

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MS. KLEIN explained airport planning looks at a window of thirty years; therefore, master plans are highly speculative because

the models are based on growth rates, assumptions, and what is going on in the global and the U.S. economies. She related the projected numbers of the last master plan were very accurate; however, the most recent master plan was too optimistic and is being reevaluated.

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REPRESENTATIVE HOLMES advised the district she represents includes a lot of the airport support services and nearby residential areas. Last year there was an issue regarding expanding the runway; in fact that project has been tabled for awhile. She asked whether there are anticipated plans for the expansion or movement of the runways.

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MS. KLEIN confirmed expansion of the fourth runway has been put off indefinitely. She explained the airlines pay for the infrastructure and they indicated the AIAS has not done a through assessment in its growth projection and of the system capacity. The reevaluation of the master plan will include a system plan that looks at the capacity of both the Anchorage and Fairbanks airports. She opined, "This is not the time, and we still have enough capacity to be addressing our needs for several years at a minimum ... this capacity [is] by managing the incoming and outgoing traffic differently, there's new technology and there are things we can do on our existing airfield to actually increase throughput."

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MS. CLOSE continued with her presentation and pointed out Anchorage's strategic location is clearly what drives the cargo activity in Alaska. The economic basis for this activity is determined by "payload versus range." The next slide compared the flight of a 747 going from Hong Kong to Chicago nonstop versus a flight going from Hong Kong to Chicago with a fuel stop in Anchorage. The stop in Anchorage for fuel allowed the second flight to carry more cargo and increase the revenue generated by the flight by almost \$200,000. Ms. Close concluded that all of the cargo carriers traveling through the Anchorage airport are seeing huge increases in revenue.

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REPRESENTATIVE DOOGAN asked whether the aforementioned "numbers" are the same for flights continuing after a stop in Fairbanks.

MS. CLOSE indicated yes.

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CHAIR RAMRAS suggested this presentation should be heard by members of the House and Senate Committees on Labor and Commerce.

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MS. KLEIN agreed.

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CHAIR RAMRAS asked whether the stop in Anchorage allows carriers to displace fuel for freight.

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MS. CLOSE said, "Yes, it's either one or the other." In further response to Representative Ramras, she explained the weight of the cargo is equal to the weight of the displaced fuel.

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CHAIR RAMRAS asked for information on the price of Jet A fuel.

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MS. CLOSE offered to find spot prices and compare the price of fuel at airports that compete with Anchorage for cargo business. She then stated that the management of the Anchorage airport has been very successful at coordinating with federal agencies to obtain regulatory advantages that help carriers enter the market and that reduce barriers to trade. For example, the airport worked with the governor's office and the U.S. Customs and Border Protection to approve Fairbanks airport landing rights for Japan Airlines. Also, because it is classified as a first point of entry, the Anchorage airport has a program called "progressive clearance" to streamline the federal customs process. Progressive clearance is used by China Airlines on passenger flights from Taipei and it allows passengers to deplane and go through document inspection; however, their baggage is cleared later in New York. This saves time as the

carrier does not have to download baggage in Anchorage and is a quicker process for the traveler as well. In addition, there is a waiver called International-to-International (ITI) that allows passengers who are coming in from an international flight and who are going onto another international flight to transit without a U.S. visa.

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MS. CLOSE explained the importance of the Anchorage airport's Cargo Transfer Authority. In 1996, the U.S. Department of Transportation awarded the airport a Cargo Transfer Flexibility that allowed the carriers to reconfigure their loads while on the ground. However, the authority limited carriers from "foreign-foreign" transfers. The airport management pursued a regulation change through Congress that resulted in an expansion of the Cargo Transfer Authority in 2003. Foreign carriers are now allowed transferring of cargo with each other to complete a journey to the U. S. She displayed a slide that showed the example of how this change allowed Northwest Airlines to serve a new market without any further investment in assets. In addition, China Airlines can now fly in from New York and transfer its cargo for transport to Shanghai. While the Cargo Transfer Authority may not attract new business into Alaska, it does anchor the current carriers and creates long-term stability for the airport. Ms. Close turned to the subject of market opportunities and pointed out the cargo carriers coming through the Anchorage airport have access, traffic rights, and space to ship to every country in Asia; furthermore, this access is available at rates that are "very, very cheap." As the westbound aircraft to Asia are almost empty, she stressed this is a potential market opportunity for Alaska.

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MS. CLOSE, responding to further interest from Representatives Tuck and Ramras, further explained that the airplanes are returning westbound, to Asia, and are 30-40 percent full.

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CHAIR RAMRAS suggested the Alaska Seafood Marketing Institute (ASMI) and the World Trade Center - Alaska, should be in contact with the carriers.

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MS. CLOSE advised the airport works closely with ASMI and related her past experience shipping seafood. The issue is opening up markets overseas to sell the fish because Alaska seafood must pull sales from an existing market. She continued to explain that driving the growth of the cargo through the Anchorage airport is the market in China. Every country has a bilateral agreement with the U.S. allowing the exchange of cargo; however, the agreement with China is unique in that the number of carriers is limited to five and the frequencies are limited. In addition, the ANC has high levels of service to Viet Nam, Singapore, and India, and each carrier has the authority to pick up cargo and take it to its home country, or transfer cargo as well.

REPRESENTATIVE RAMRAS recalled Viet Nam, Singapore, and India were the three [destinations] identified by the World Trade Center - Alaska as potential markets for Alaska. He asked for information about the "cargo relationship" with the three.

MS. CLOSE explained that all of the Japanese, Korean, Taiwanese, and Chinese carriers have traffic rights and the authority to transfer cargo to Viet Nam, Singapore, and India, as do Singapore Airlines, FedEx, and United Parcel Service (UPS). On the other hand, if India develops into a market, the routes will fly over Europe instead traveling an additional 2,000 miles to Anchorage.

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REPRESENTATIVE HOLMES asked whether the unique agreement with China pertains to the entire U.S.

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MS. CLOSE explained the agreements are with the U.S.; in fact, the agreements with Viet Nam and Singapore are called "open skies" agreements which are unlimited, but the agreement with India is somewhat limited. The U.S. air service agreement with China was signed in 2004 and has had a positive impact on ANC business. In 2000, there were 15 landings per week operating into China; in 2006, there were 198 landings per week, and in 2007 there were 260 landings per week. In fact, the Chinese air cargo market accounted for 35 percent of the air cargo traffic through ANC in 2007. Regarding the economic impact of international cargo at ANC, she said cargo accounts for two-thirds of all airport revenue; furthermore, the top nine international carriers account for 54.76 of the cargo revenue.

Ms. Close reiterated the strengths of the Anchorage airport such as; its location, its competitive rates, a good relationships with carriers, having the Fairbanks airport as an alternative airport, and strong support from maintenance providers through parts exchanges and local suppliers. Opportunities for the airport include; the existing all-cargo carrier operation, the Cargo Transfer Authority, an increased use of freighters, and a growing base of Chinese carriers. Furthermore, she predicted the Chinese agreement will be expanded into an "open skies" agreement by 2011 that will bring in additional Chinese carriers.

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MS. CLOSE addressed threats to ANC and pointed out there is not a good manufacturing base in Alaska to provide export opportunities for the carriers. Also, the weather and the expense of deicing aircraft is a concern. The third threat is the constant competition from other airports.

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CHAIR RAMRAS asked for the cost of deicing.

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MS. CLOSE estimated \$800 to \$1,000. In further response to Representative Ramras, she reminded the committee of the increased cargo capability of each flight to balance any additional landing costs at ANC.

She addressed weaknesses at the airport and noted a decrease in flights due to the global recession. In addition, there has been an increase in overflights due to the development of longer range aircraft and also due to lighter loads that allow aircraft to avoid the fuel stop.

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CHAIR RAMRAS asked for suggestions for the ideal cargo.

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MS. CLOSE suggested perishables.

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REPRESENTATIVE JOULE asked whether there is warehouse capacity at the Anchorage airport for the storage of perishable items such as fresh fish.

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MS. CLOSE said yes, several of the carriers have freezers and chillers. She continued to relate another weakness at ANC is the shortage of a domestic air cargo network as the shortage limits warehouse and distribution opportunities. A slide of the domestic air cargo network showed thirteen carriers bringing cargo from Asia and only four carriers taking cargo to the Lower 48. This situation creates a warehouse and storage problem; in fact, in order to transport cargo to the Lower 48, shippers must pay for the flight from its origin in Asia.

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MS. CLOSE recapped fiscal year 2008. The year was "off a little bit," until after October when there were major decreases in cargo operations. Passenger traffic was holding steady, although cargo landings decreased 5.4 percent. The airport's largest ground handler for international landings reported a small increase in landings during March. Several items of good news for the airport are that Nippon Cargo Airlines is moving from New York to Anchorage; Cathay Pacific has added new freighters, two new stations, and six additional flights per week through Anchorage; either Evergreen International Airlines or Kalitta Air will be a new carrier for China beginning in April, 2009; and UPS has opened a new hub in Shanghai and will be increasing its flights by eight per week. Ms. Close concluded that, although carriers are being cautious, there is some expansion of services.

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MS. KLEIN expressed her appreciation to Ms. Close for her long-term contribution to the cargo and international marketing function of the airport. She pointed out that her department takes the AIAS position very seriously and monitors daily changes in the cargo economy. It is important balance the additional costs of operation in a northern climate and to keep the rates and fees competitive.

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CHAIR RAMRAS asked what Fairbanks can do to attract additional landings.

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MS. KLEIN stated there was concern by carriers about the FAI and its support facilities; however, there are increasing options for support staff, the terminal has been remodeled, and cargo ramp facilities at the airport have been expanded. In fact, in February there were several FedEx diversions that went well. In response to Representative Ramras, Ms. Klein said the landing fees in Fairbanks are the same as in Anchorage, although there is an incentive for Fairbanks landings.

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CHAIR RAMRAS reiterated his recommendation that this presentation should be available to other members of the legislature.

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KARINA PETERSEN Reporter, KTVA CBS Channel 11, called attention to the Prince George Airport Runway Extension Project and asked whether the Department of Transportation & Public Facilities has concerns about possible competition from the Prince George airport for ANC cargo business.

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MS. KLEIN responded that the department takes all competition seriously; however, Prince George is a small community, and the airport has one runway with no taxiway. She opined the cargo business at ANC requires a more developed ground support system and service providers than they can provide at this time. She acknowledged the Prince George Airport could become a competitor in the future for Vancouver International Airport.

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MS PETERSEN agreed "It would be hard for Prince George airport to catch up ..."

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REPRESENTATIVE TUCK asked about the air traffic from Asia to Canada.

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MS. CLOSE noted that Cathay Pacific Airways and Air Canada stop in Anchorage before going on to Canada, with the exception of flights going to Vancouver.

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**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 6:27 p.m.