

ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE SPECIAL COMMITTEE ON WORLD TRADE, TECHNOLOGY AND
INNOVATION
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, INTERNATIONAL
February 10, 2009
5:19 p.m.

MEMBERS PRESENT

SENATE MEMBERS

Senator Lesil McGuire, Chair
Senator Hollis French
Senator Gary Stevens

HOUSE MEMBERS

Representative Jay Ramras, Chair
Representative Mike Chenault
Representative Nancy Dahlstrom
Representative Mike Doogan

MEMBERS ABSENT

SENATE MEMBERS

Senator Lyman Hoffman
Senator Bill Wielechowski

HOUSE MEMBERS

Representative Kyle Johansen
Representative Mark Neuman
Representative Chris Tuck

COMMITTEE CALENDAR

Presentation and Overview: World Trade Center Alaska
HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record.

WITNESS REGISTER

Greg Wolf, Executive Director
World Trade Center Alaska
Anchorage, AK

POSITION STATEMENT: Delivered World Trade Center Alaska
Overview.

ACTION NARRATIVE

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CO-CHAIR JAY RAMRAS called the joint meeting of the Senate Special Committee on World Trade, Technology and Innovation and the House Special Committee on Economic Development, International Trade and Tourism to order at 5:19 p.m. Present at the call to order were Senators Stevens, McGuire and Representatives Chenault, Doogan, Dahlstrom, and Ramras. Senator French arrived during the course of the meeting.

World Trade Center Alaska

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CO-CHAIR RAMRAS announced the business before the committee is to hear a PowerPoint presentation by Mr. Wolf with World Trade Center Alaska.

GREG WOLF, Executive Director, World Trade Center Alaska, thanked the committee for inviting him to talk about Alaska's international trade economy. He said he will talk about the size and scope of these activities and provide an overview of what Alaska exports to which markets and why it matters.

He explained that World Trade Center Alaska (WTCAK) is a private nonprofit corporation with about 100 members that share an interest in international business. WTCAK partners with the State of Alaska and the U.S. Department of Commerce to provide information and assistance to Alaskans seeking to do international business. In Alaska that is primarily export business and that will be the focus today.

MR. WOLF said international trade is big business for Alaska. The figures aren't final but estimates are that 2008 exports will total some \$3.7 billion. This represents about 10 percent of Alaska's gross state product. Exports bring about \$4 billion in new money into the Alaska economy and support thousands of jobs directly and indirectly. This results in a stronger and more diversified state economy. He noted that the numbers he is talking about today do not include the export of services like construction, engineering, oil and gas field services, and

environmental services. The U.S. Department of Commerce doesn't yet have a way to capture, record, and report that data. Export jobs typically pay 13 to 16 percent more than jobs tied solely to the domestic economy.

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Senator French joined the meeting.

CO-CHAIR RAMRAS asked Mr. Wolf to be more specific about where these jobs are coming from.

MR. WOLF replied these are jobs in mining, the seafood industry, and transportation that are tied directly or indirectly to trade. He added that it's the existence of export markets that dictate the size of some industries or enable them to operate in the state at all. For example, virtually all mine output is exported to markets overseas. He cited zinc and lead from the Red Dog Mine and coal that is shipped to Korea and Latin America. Prior to Agrium's closure, 99.9 percent of the fertilizer output went to overseas markets. Also, about 50 percent of Alaska's annual seafood catch is sent to overseas customers. What all this suggests is that but for international markets, these industries either wouldn't be here at all or they'd be much smaller than they are now.

Another benefit of trade is that it allows companies to grow through expanded markets and customer base. Alaska itself is a very small market with about 700,000 people so for a company to grow beyond its market share the options are to take customers from competitors here, expand into the Lower 48 states, or expand into markets overseas. The seafood industry, for example, has some products that don't have a large market in the U.S. but are highly prized in Asia. Depending on the company and whether it is marketing a product or a service or a commodity, the best bet to grow beyond their current size may be to look to markets overseas.

MR. WOLF said according to 2007 data and with \$4 billion in exports, Alaska's trade ranking is 42nd among the 50 states. On a per-capita basis it ranks 4th and when exports are viewed as a percentage of gross state product it ranks 8th in the nation. What this shows is that compared to states with other industries like manufacturing or agriculture, Alaska is a trading state that is developing its natural resources and finding customers overseas. Also worth mention is that Alaska ranks 8th in the nation in attracting overseas investment. Cumulatively, \$31 billion from overseas companies has been invested in Alaska.

Much of that investment has been on the North Slope. British Petroleum (BP), for example, has invested over \$20 billion in Alaska. But other companies have invested heavily in Alaska also including: Japanese companies in seafood, British companies in mining and tourism, and Canadian companies that are investing heavily looking for minerals and metals. In fact, over the past 20 years about 75 percent of the exploration dollars spent in Alaska comes from Canadian companies. This shouldn't be a worry because the overseas companies that tend to come to Alaska are large multi-nationals. This is good because the projects in Alaska are usually large-scale and need lots of capital. Not only do they bring money, they also tend to bring new skill sets and new technologies. When these multi-national companies invest here it says something positive about the Alaska business environment and is a vote of confidence in the Alaska workforce.

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MR. WOLF displayed a bar graph showing Alaska worldwide exports from 1994 to 2007 with estimates for 2008. He noted that in the last several years the value of exports has increased but that doesn't necessarily represent an increase in volume. The increase can largely be attributed to the higher prices that Alaskans have received for their exports. He used the increased price of gold as an example and said the growth in the last several years has to do with the increase in global prices of the commodities that are exported.

CO-CHAIR RAMRAS observed that former Governor Murkowski did an exceptional job of looking outside the state to build trade. He asked Mr. Wolf to talk about the influence that a chief executive can have when he or she looks outside the state.

MR. WOLF said not only Governor Murkowski but also Governor Hickel and Governor Knowles. Governor Hickel was a strong proponent of international trade and to this day is very active. Governor Knowles also was involved in efforts to expand Alaska trade and open new markets. It's important that the governor and legislative leaders take an active role in recognizing the importance of trade. Whoever is governor, the leadership that he or she provides in bringing attention to the role that trade plays in the economy is helpful. He noted that WTCAK has had a good working relationship with Governor Palin and the Governor's Office of International Trade. Whenever our leaders are engaged we are well served, he said.

CO-CHAIR MCGUIRE asked what the Legislature can do to support his activities.

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MR. WOLF replied he didn't come to make a funding request but they do have a partnership with the state. WTCAK receives a modest grant from the state each year and also works with the U.S. Department of Commerce to pool resources. Alaska has long been a leader, he said, and cited opening the first state trade office in Tokyo in 1965 and in Korea in 1985. In 1989, along with a handful of states, it entered that Taiwan market and in 2002 was among the first to establish a trade representative in China. He recalled that when he was the international trade director for Alaska it wasn't uncommon to advise other states on trade. He expressed the view that Alaska has had to be a leader and it's paid off. Alaska has old-friend status in those markets and it means a lot, particularly when times are tough. For example, when the Japanese economy turned down Alaska didn't pull out as some states did. We can be proud of our leadership role, he said.

CO-CHAIR RAMRAS mentioned the potential for the two committees to travel for the purpose of enhancing an existing trade relationship or targeting a new one and asked for suggestions on getting the biggest bang for the buck.

MR. WOLF said WTCAK has five focused trade development programs and one is called "New markets new customers." Now they are starting to look at India, which has some characteristics that are similar to China including: a population of over 1 billion; a growing middle class; a growing economy; a need for infrastructure; and a need for natural resources. Other markets that could offer opportunity are Vietnam for oil and gas and Singapore for seafood.

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SENATOR STEVENS commented that as an ex officio member of the Alaska Seafood Marketing Institute (ASMI) board of directors his ears perk up when seafood is mentioned. He noted that seafood markets are opening in Europe because Alaska is one of the few sustainable seafood producers. He asked how WTCAK works with ASMI.

MR. WOLF described ASMI as a sister organization in terms of economic development. ASMI focuses only on seafood while WTCAK has other interests as well, but whenever possible they work in partnership. He added that he has seen ASMI in action in overseas markets competing with nations. Their job is tough but they are doing good work and getting good results.

SENATOR STEVENS added that he's really proud to see that in these European tradeshows Alaska is competing successfully against Norway, Iceland, and Spain.

CO-CHAIR RAMRAS mentioned Singapore, India, and Vietnam and asked the mechanism for moving Alaskan products into a country where there is no established trade route.

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MR. WOLF explained that WTCAK takes a top down approach and looks at whether Alaskan companies export capabilities can match a country's import needs and whether the country can afford the product. Transportation, either within the state or overseas, usually is an issue. In fact, transportation and energy are typically the greatest barriers to the success of a new development going forward. He cited seafood exports as an example and said his interest was piqued when he noticed a 747 cargo freighter operated by Singapore Air that was going from Anchorage to Singapore without much seafood on board. He knew this was an opportunity and the niche they identified initially was the high-end hotel market. Because Alaska is part of the Pacific Rim, the shipping routes for getting Alaska resources to market in Asia are fairly direct.

Again referencing the bar graph, Mr. Wolf pointed out that in 1998 Alaska exports dropped [\$0.7 billion] from 1997 because of the Asian economic crisis started. It started in Thailand, Indonesia and Malaysia in the fall of 1997 and then moved north to Korea. At that time Alaska was only doing business with Korea, but it was a large amount of business. He said he brings that up to remind everyone that even though those places may seem far away, what happens in those markets directly affects Alaskan jobs, industry and revenue coming into the state.

MR. WOLF displayed a pie chart of Alaska's top ten export markets for January to September 2008 and noted that close to 70 percent is focused in Asia with Japan continuing to be the number one partner at 28 percent. Seven or eight years ago that would have been 50 percent and reflects the economic decline Japan has suffered in the last nearly two decades. The reason Alaska has grown its exports overall is due largely to business with China. Six years ago Alaska exported to China about \$100 million in commodities and last year the figure was \$700 million.

CO-CHAIR RAMRAS said if there is a ready market if Alaska were to increase overseas exports by 50 percent.

MR. WOLF replied a lot of the growth in exports has been driven by demand from China and India. Their demand is pushing prices up so Alaska benefits whether it is selling to them or not. Alaska does compete with other nations so it will be constrained by what the market will bear, but if global growth continues Alaska is well positioned.

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SENATOR FRENCH said he jumped ahead several slides and he expects a greater contraction in world markets than the presentation indicates. But you're the expert here and I appreciate the analysis, he added.

MR. WOLF said he would respond to that later.

Continuing, Mr. Wolf summarized that some of the countries that Alaska exports to are single-commodity markets including Switzerland for precious metals and Belgium for zinc. Asian markets are more multi-dimensional.

He displayed a bar graph of Alaska's steady growth in exports to China for January through September, 2006 to 2008 and remarked that if it continues to grow, it is conceivable that China could surpass Japan to become Alaska's number one trading partner. That country is an increasingly important customer and he would suggest that the next phase is for China to want to become a partner in natural resource development projects in Alaska. He suspects this because wherever you find resources in abundance, you find the Chinese and Chinese investment. I see no reason that Alaska would be any different; during the AGIA process one Chinese company did put in an application, Mr. Wolf said.

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MR. WOLF displayed a slide showing economic growth projections for 2009 and noted that according to the International Monetary Fund, U.S. growth will decline about 2 percent. Asian markets also will decline but not as much so it's in these markets that Alaskans may find their next opportunities. He noted that the most pessimistic analysis of China was from the Royal Bank of Scotland. They projected just 5 percent growth, but different Chinese government agencies are holding projections to at least 8 percent.

CO-CHAIR RAMRAS said he'd like to invite Mr. Wolf to come back and focus on suggested trade missions, market sectors and strategies for China, India, Vietnam, and Singapore.

MR. WOLF said he will be happy to do so in consultation with colleagues at the State of Alaska and the U.S. Department of Commerce.

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MR. WOLF displayed a slide showing that seafood remains Alaska's single largest export commodity at more than 50 percent. Minerals, zinc and lead primarily, represent the second largest category at 20 percent; energy, which includes LNG, coal and refined fuel represents 13 percent. He noted that Alaska has not exported overseas any crude oil for a number of years.

CO-CHAIR RAMRAS asked which of the categories have value added and which would be dominant in value added.

MR. WOLF replied most of the products are raw or unprocessed so there's work to be done in capturing more value before the product is exported. A successful example of value added was Agrium that took gas and turned it into urea and ammonia-related fertilizer products. LNG is another way of adding value, but by and large someone else along the line is capturing the value of those jobs and additional revenues, he said.

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SENATOR FRENCH asked for an example of a specific governmental policy that would help to diversify the economy and encourage value-added industries in Alaska. He added that a caveat to his question is that the Alaska seafood plant is in his district and doesn't operate as such any longer. It's now a successful church that isn't generating much money for the state of Alaska.

MR. WOLF said he would like to address that at a future presentation, but any value-added product will have to have a market in either the Lower-48 or overseas. Alaska itself doesn't have the population to be a very large customer. He noted that Agrium's market was overseas.

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CO-CHAIR MCGUIRE asked if there's been any effort to track intellectual property.

MR. WOLF replied it's difficult to track but they are attempting to track the export of services and some service companies are

driven by their intellectual property. He acknowledged that it is a growth area.

CO-CHAIR MCGUIRE said it would be interesting to see if WTCAK could look for a model for that. A lot more intellectual property will come out of the renewable energy field.

MR. WOLF said WTCAK estimates that the value of Alaska's service sector exports represents about \$500 million to \$750 million annually. He noted that a fairly well-known oil and gas field service company in Alaska was doing \$250 million in annual sales overseas so those numbers are likely conservative. Alaskan companies that are exporting services overseas include: logistics for oil and gas field services in Russia, installing air traffic control management systems, construction, transportation, architecture, and environmental services. They are providing these services in Canada, Russia, Taiwan, China, Korea, and the Middle East.

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Alaskan companies have developed world-class capabilities and are finding customers overseas. Firms have gained experience and expertise in carrying out projects in remote locations, with extended supply chain challenges, often in harsh weather conditions, under the strictest environmental regimes, and often in places where local labor is untrained or not readily available. These skill sets and experience can be applied in other parts of the world and increasingly it is.

The trade outlook for 2009 will depend heavily on commodity prices. The value of the seafood catch will greatly determine success. Today the value of zinc is \$0.51 per pound; a year ago it was \$1.10 per pound and in January 2007 it was \$2.00 per pound. WTCAK is also looking at the effect of the U.S. slowdown on Asia's exporting countries because many of them are Alaska's best customers. Something else to watch is the dollar. A weaker dollar makes U.S. exports appear cheaper to overseas buyers. The ideal customer for Alaska is a country with a strong currency and economy. He noted that the Agrium closure represented a \$3 million loss in exports. Overall exports are expected to be about \$3.5 billion to \$3.6 billion, which is down compared to the last couple of years but relatively high historically.

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CO-CHAIR RAMRAS said news articles statewide have said that with the loss of Agrium the cost of fertilizer for the green belts in Mat-Su and Delta will go up 400 percent. He asked if any value

added exports bring down the cost of living to Alaskans the same way that Agrium's export of fertilizer did.

MR. WOLF said to the extent that we are doing value added processing or manufacturing of commodities it may be beneficial to Alaskans, but the price of a lot of what Alaska has to offer is set globally. One of the challenges to any value-added manufacturing that's been attempted here is producing on a scale large enough to get the per unit cost low enough to compete. He cited bottled water as an example.

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CO-CHAIR MCGUIRE asked what we're doing in Alaska to get cruise ships to market our products.

MR. WOLF said the Alaska Brewing Company has had success in getting its product on Alaska Airlines flights and local bottled water has from time to time been on different carriers. It might be possible to get some Alaskan food and beverages on cruise ships but when those customers sample Alaska products when they're here, they may become long-term customers by requesting those products when they are home.

CO-CHAIR RAMRAS asked him to talk about the strategic importance of the Ted Stevens International Airport and how it, as the fourth busiest cargo airport in the world, can be exploited.

MR. WOLF said that airport and in some cases the Fairbanks International Airport make possible the movement of low weight high value products. They open the door in terms of shipping value added manufacturing products worldwide. The airport is an asset that could make a lot of things possible for the community including moving cargo and growing domestic and international passenger operations. Asian companies could save time by coming to Alaska to have conferences, conventions and trade shows. While they're here they could visit all parts of the state.

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CO-CHAIR RAMRAS thanked Mr. Wolf and said if we invite you again we might task you with the dual objective of surveying market sectors in China, India, Vietnam, and Singapore and looking at ways to leverage the Ted Stevens International Airport as a key infrastructure asset of the state.

MR. WOLF thanked the members for their leadership in the areas of economic development, trade, and tourism. The rewards associated with this diversification can be significant.

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CO-CHAIR RAMRAS adjourned the joint meeting of the Senate Special Committee on World Trade, Technology and Innovation and the House Special Committee on Economic Development, International Trade and Tourism at 6:28 p.m.