

**ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE SPECIAL COMMITTEE ON WORLD TRADE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE AND
TOURISM**

February 12, 2013
11:18 a.m.

MEMBERS PRESENT

SENATE SPECIAL COMMITTEE ON WORLD TRADE

Senator Gary Stevens, Chair
Senator Lesil McGuire, Vice Chair
Senator Peter Micciche
Senator Berta Gardner

HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE AND
TOURISM

Representative Shelley Hughes, Chair
Representative Pete Higgins
Representative Harriet Drummond
Representative Lynn Gattis
Representative Geran Tarr

MEMBERS ABSENT

SENATE SPECIAL COMMITTEE ON WORLD TRADE

Senator Charlie Huggins
Senator Mike Dunleavy
Senator Lyman Hoffman

HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE AND
TOURISM

Representative Bob Herron
Representative Craig Johnson
Representative Kurt Olson
Representative Lance Pruitt

COMMITTEE CALENDAR

PRESENTATION: WORLD TRADE CENTER ALASKA

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

GREG WOLF, Executive Director
World Trade Center Alaska (WTCAL)
Anchorage, AK

POSITION STATEMENT: Delivered a PowerPoint presentation entitled, "A World of Opportunity: An Update on Alaska's International Trade. Trends and Outlook Moving Forward," dated 2/12/13.

ACTION NARRATIVE

[11:18:51 AM](#)

CHAIR GARY STEVENS called the joint meeting of the Senate Special Committee on World Trade and the House Special Committee on Economic Development, Trade and Tourism to order at 11:18 a.m. Present at the call to order were Senators Micciche, Gardner, McGuire, and Chair Stevens; and Representatives Higgins, Drummond and Chair Hughes.

Presentation: International Trade Update, World Trade Center Alaska

[11:19:35 AM](#)

CHAIR STEVENS announced the business before the committees would be a presentation from World Trade Center Alaska.

[11:19:42 AM](#)

GREG WOLF, Executive Director, World Trade Center Alaska (WTCAL), introduced himself and informed the committees that this was the fifteenth consecutive year that he had the privilege of briefing the legislature on international trade with Alaska.

He explained that the World Trade Center was established in 1987 by the University of Alaska. In 1998, it transitioned to a private, non-profit corporation that is governed by an 18-member board of directors. Since 1998, the Trade Center has had a partnership relationship with the State of Alaska; since 2008, it has represented the U.S. Department of Commerce in Alaska by

running the U.S. Export Assistance Center in Alaska; and since 2009, it has had a formal partnership with the University of Alaska. WTCAL has about 100 member companies and entrepreneurs from across the state.

CHAIR HUGHES asked if both federal and state funds come with the aforementioned partnerships.

MR. WOLF answered yes; some funding has come from the state for the past 15 years and they have a contractual relationship with the U.S. Department of Commerce to provide certain services according to a work plan that is approved by both parties.

CHAIR HUGHES asked the amount of the state funding and if it has increased or decreased over the 15 years.

MR. WOLF replied that it has gone up and down; the last grant was \$300,000 and the request this year is for \$150,000.

MR. WOLF said he would talk about four things: the trade and export numbers, the trends influencing success, the outlook for the future, and the functions of the Trade Center.

He stated that international trade is big business for Alaska. Based on the first nine months, exports to overseas markets are estimated to total \$4.5 billion in 2012. This is about 10 percent lower than the all-time record year in 2011, but 2012 will still go on record as the second highest year of all time for Alaskan exports.

CHAIR HUGHES asked how he would explain the 10 percent decline from 2011 to 2012.

MR. WOLF replied that in some years production is down, in some years value is down, and in some years it's a combination of both. For example, the same amount of gold can be shipped this year as last, but the value may be up or down some \$400 an ounce. That would have a marked effect on the total for that export category.

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SENATOR MICCICHE asked what the top three products were according to export value.

MR. WOLF deferred the question until the next slide. He continued to point out that exports represent about 10 percent of the state's gross state product (GSP), which in 2012 was

about \$52 billion. Exports represent new money into the Alaskan economy and it supports thousands of direct and indirect jobs. The overall result is a stronger and more diversified economy. Based on total export value, Alaska ranks 40th among all states; as a percentage of GSP, it ranks 14th; and on a per capita basis, it ranks 4th.

CHAIR HUGHES highlighted another strength; what Alaska has accomplished as such a young state.

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MR. WOLF stated that trade matters because it is a substantial component of Alaska's economy and typically accounts for approximately 10 percent of the GSP. The numbers reported typically are the export values for commodities, but this isn't a complete picture because the U.S. Department of Commerce does not report the export of services from Alaska such as construction, engineering, oil and gas, and environmental services. This is substantial and could \$0.5 billion to \$1 billion per year.

In addition to the \$4 billion to \$5 billion in export revenues, a study by Northern Economics estimated that export activities generate another \$2 billion in induced and indirect economic benefits. Exports allow companies to become larger through expanded markets and customer base; for some Alaska companies, the best bet for growth is overseas markets.

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MR. WOLF said the same study by Northern Economics reported that exports support nearly 15,000 direct jobs in Alaska, and 10,000 indirect and induced jobs. These are typically high-paying jobs and pay 13 to 16 percent more than jobs tied solely to the domestic economy. There is ample evidence of this in the state. According to the U.S. Department of Commerce, approximately 300 companies report they are exporting from locations in Alaska. Seventy five percent of these companies are considered by the U.S. Department of Commerce to be small and medium size enterprises of 500 employees or fewer.

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MR. WOLF displayed a graph showing Alaska's top export commodities for January through September 2012 are as follows: seafood - 55 percent, which is the state's largest single export commodity; minerals - 28 percent, the second largest commodity is primarily zinc and lead; precious metals - 2 percent; forest

products - 3 percent, tend to be round logs; and fishmeal - 1 percent. Alaska is a natural resource exporting state, he said.

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CHAIR HUGHES asked if there was interest in value-added production in the state, because that brings more bang for the buck.

MR. WOLF answered that World Trade is working with some companies that are doing value-added processing and he wishes there were more. A good example was the AGRIMUM fertilizer plant. That enterprise took gas, converted it to fertilizer, and exported more than 99 percent of the production.

REPRESENTATIVE DRUMMOND commented that it's a red flag for value-added production in Alaska when a company like Yummy Chummies moves to Arizona because of shipping issues. She asked if he had any ideas about how to avoid losing valuable businesses like that.

MR. WOLF said that in the 1990s, he was able to negotiate a back-haul rate for a company, and there was some effort to see if that is possible today.

SENATOR MICCICHE asked if the energy exports included more commodities than coal and LNG.

MR. WOLF explained that the energy category includes coal, LNG, and some years it includes refined fuel products, too. Alaska does not export petroleum.

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SENATOR MICCICHE asked if WTCAK was working to improve the outlook for exporting Alaskan timber in the future.

MR. WOLF responded that over the years, the forest products sector has been declining in terms of export value. In large part, the problems relate to access or supply rather than demand. He noted that the companies that are exporting forest products tend to be on private lands. He relayed that in the last year, WTCAK has worked with several value added processors of forest products such as for musical instruments.

SENATOR MICCICHE requested guidance on improving access, identifying obstacles, and developing solutions for what was once a thriving industry in Southeast Alaska.

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REPRESENTATIVE GATTIS joined the committee.

REPRESENTATIVE HIGGINS noted that Puerto Rico ranked above Alaska in terms of total value of exports. He asked why Alaska ranked so low.

MR. WOLF explained that many states that rank higher than Alaska have large manufacturing and agricultural sectors. Alaska lacks both and still ranks 40th by shipping essentially raw commodities, which is respectable.

CHAIR STEVENS asked members to hold further questions and allow Mr. Wolf to finish the presentation.

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MR. WOLF displayed a graph showing Alaska's top ten world export partners as follows: China - 27 percent; Japan - 18 percent; South Korea - 15 percent; Canada - 10 percent; Germany - 7 percent; Spain - 4 percent; Netherlands - 3 percent; Australia - 2 percent; Switzerland - 2 percent; Singapore - 1 percent; and Other - 11 percent. He noted that in 2011, for the first time since statehood, China surpassed Japan to become Alaska's largest trading partner. The Pacific Rim countries tend to be the largest partners while the European countries are smaller in volume. In some cases, they are a single commodity customer; for example, exports to Switzerland are almost exclusively precious metals. The large Asian markets tend to be big customers for Alaska in all categories.

He directed attention to a graph depicting Alaska worldwide exports from 1994 - 2012 and noted that it shows down periods in just two years. In 1998, exports dropped almost \$0.75 billion due to the Asian economic crisis, which affected Alaska exports to Korea. Exports dropped again in 2008 - 2009 due to the worldwide economic crisis. Other than that, exports for the past 20 years have been stable or upwards.

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MR. WOLF said Alaska's exports to China continue to be robust. In 2000, Alaska's exports were \$103 million and in 2011, they reached \$1.4 billion, which is unprecedented. He opined that the next phase of this relationship is for China to come to Alaska and partner on development projects. China is already doing this elsewhere in the world.

Alaska's commodity exports to China for the first nine months of 2012 are as follows: seafood - 58.1 percent; minerals - 19.3 percent; forest products - 6.6 percent; and fishmeal - 2.4 percent. He noted that precious metals will show next year; for example, about 50 percent of the production from the Kennicott mine goes directly to China.

MR. WOLF described the "Three Rights" that benefit Alaska: Alaska is in the right place geographically; it is located on the Pacific Rim alongside the fastest growing economies in the world and among the fastest growing populations in the world. This is also the right time in history; economic liberalization and modernization is changing the economic picture and causing migration to cities and growth of the middle class. The international consulting firm, McKinsey & Company, has projected that by 2025, 400 million people in China will move from rural areas to urban centers. New cities are being created. They estimate that India will see about 215 million to 220 million people move from rural parts of the country into the cities. This has never happened before in recorded history, but it plays to Alaska's favor. Alaska also has the right commodities. It has world-class reserves of natural resources, which are the building blocks of economic development. These are what people need versus what they want.

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MR. WOLF said he is optimistic because Alaska has what the world needs, it has the fast growing economies and populations in its backyard, and commercial development of the Arctic presents significant new opportunities for Alaska. Other reasons for optimism are that many resources, including metals and minerals, remain untapped. He reviewed the following:

- Coal - 17 percent of the world's coal is in Alaska, the 2nd most in the world.
- Copper - 6 percent of the world's copper is in Alaska, the 3rd in the world.
- Lead - 2 percent of the world's lead is in Alaska, the 6th most in the world.
- Gold - 3 percent of the world's gold is in Alaska, the 7th most in the world.
- Zinc - 3 percent of the world's zinc is in Alaska, the 8th most in the world.
- Silver - 2 percent of the world's silver is in Alaska, the 8th most in the world.

Alaska also has an abundant supply of North Slope natural gas, none of which has been exported.

The 2013 trade forecast is about the same as 2012. Exports will be \$4.5 billion to \$4.7 billion, dependent mainly on the price of commodities. The dollar bears watching because a weaker dollar makes U.S. exports relatively cheaper. It's also important to watch the Pacific Rim economies, primarily China, Japan, and Korea for strength or weakness. The better they do, the better Alaska does.

11:52:07 AM

MR. WOLF reviewed the facts about the World Trade Center Alaska. This private, non-profit membership corporation provides international business services to members and community partners statewide. The mission is to assist Alaskans to compete successfully for trade and investment in the global marketplace. It is part of a global network of over 300 world trade centers around the world.

The core functions of the World Trade Center Alaska include the following:

- Helping Alaska companies become export ready through information, seminars, conferences, and other technical assistance.
- Research foreign markets and identify trade opportunities for Alaska companies.
- Support Alaska companies with the information and hands-on assistance needed to make trade happen. Connect Alaska sellers with overseas buyers.
- Make office and conference rooms available to facilitate business meetings and events.
- Provide members with access to facilities and support in more than 300 cities around the world.

MR. WOLF said that WTCAL works with the private sector and community partners utilizing its "Boots on the Ground" strategy. In the past ten years, they have taken groups to China, Korea, India, Taiwan, Singapore, and others to foster a better understanding of overseas markets and to make business contacts. He then described five major programs, four of which are country-specific: Japan Focus, China Calling, Canada Opportunities Next Door, and Korea Connection. The fifth program called "New Markets, New Customers" looks at emerging markets in countries such as India. Finally, he listed WTCAL's three long-

term strategic partners: the State of Alaska; the University of Alaska; and the U.S. Commercial Service, an arm of the U.S. Department of Commerce. He also noted the help of the legislature.

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CHAIR HUGHES asked if there was demand for products in other countries that Alaska could potentially fill. She also asked if WTCAC has a long-range plan for increasing exports.

MR. WOLF said there is demand worldwide for potable water, which is an untapped opportunity in Alaska. The state provided funding last year to inventory rare earth elements, and private sector companies are pursuing that opportunity as well. There also is an overseas market for high-value specialty seafood products. There is also opportunity to expand markets in the existing categories. He opined that if Alaska is able to develop the resources it knows about, the \$5 billion export level will seem small in a few years. He reiterated his optimism for the future.

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SENATOR MCGUIRE asked if India had followed up after the most recent trade mission on their interest in coal and LNG.

MR. WOLF said there has been some follow up. He added that the India market generally offers great opportunity. It has an economy that is growing slightly slower than China and has an enormous need for natural resources and infrastructure build out.

SENATOR MCGUIRE emphasized Mr. Wolf's good work and value to all administrations over the years. She highlighted that WTCAC is independent but complimentary to the Department of Commerce, Community and Economic Development (DCCED). She encouraged committee members to advocate for all things that promote trade and support partnering.

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CHAIR HUGHES reconvened the meeting.

SENATOR GARDNER asked if China would bring things like capital and enhanced access to markets if it were to partner on development projects in Alaska.

MR. WOLF responded that they would bring both those things. When China has invested in other natural resource jurisdictions, the relationship has taken form on a case-by-case basis. He continued to say that Alaska is a natural fit with China and other Asian countries that are resource poor and have burgeoning growth.

CHAIR HUGHES asked Mr. Wolf to address her earlier question about whether WTCAK has a long-range plan for increasing exports.

MR. WOLF explained that approach their approach is twofold. First, the board of directors is in the process of developing an internal ten-year plan. In terms of WTCAK's work, it is looking at emerging markets in Southeast Asia as well as the well-established markets in Japan, Korea, and Canada. He noted that the February edition of "Alaska Business Monthly" has an article on international trade and the opportunities for new markets and new customers in Southeast Asia. The idea is to identify new markets in growth economies, analyze their import needs, and match that with Alaska's export capabilities.

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CHAIR HUGHES asked if WTCAK has a plan that looks at where Alaska could be in 50 years. For example, the timber industry could be further developed.

MR. WOLF answered that WTCAK has many ideas but they haven't necessarily been formalized into a document. However, they would be willing to work with their long-term strategic partners on that type of plan.

CHAIR HUGHES encouraged him to take that step. She then asked if he was able to contribute formally in conversations about developing infrastructure to help with world trade.

MR. WOLF said yes; WTCAK offers input when asked and in forums like this. He confirmed the importance of developing infrastructure to provide access and commercialize Alaska's resources. He noted that because Alaska is a young state it has a lot of catching up to do.

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CHAIR HUGHES asked if he had heard anything as to whether the proposal to designate the Susitna area as the Susitna Forest would help timber exports.

MR. WOLF said he wasn't familiar enough with the issue to comment, but would follow up.

REPRESENTATIVE DRUMMOND - noting that a prime purpose of the Port MacKenzie rail extension is to get coal to the port - asked if the project was funded and proceeding.

CHAIR HUGHES relayed that it is moving forward.

MR. WOLF offered his understanding that the rail extension could play a large role in a number of resource development projects in addition to coal. He highlighted that most Greenfield projects in Alaska require two critical things - power and transportation.

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REPRESENTATIVE TARR joined the meeting.

REPRESENTATIVE DRUMMOND suggested that China could help Alaska build the spur line.

CHAIR HUGHES asked Mr. Wolf if he had any comment on that idea.

MR. WOLF highlighted that Alaska has been very successful in attracting foreign direct investment (FDI), which is investment in the U.S. from subsidiaries of foreign companies. Alaska ranks in the top 10 in the nation for attracting FDI and cumulatively has attracted about \$34 billion from a variety of countries. This investment has been almost exclusively in the area of natural resource development. However, much of this investment occurred 20-30 years ago so it's a reminder that Alaska needs to remain competitive as a destination for capital.

REPRESENTATIVE GATTIS asked what projects stood out 20 years ago.

MR. WOLF replied the largest is the investment by British Petroleum (BP) in the Trans-Alaska Pipeline System. In addition, Canada is a big player in mining exploration and operates some of Alaska's largest mines, and Japan has invested in mining and seafood processing plants.

He said that when these multi-national companies choose to invest in Alaska, it is a vote of confidence in the quality of the business environment and workforce in Alaska.

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CHAIR HUGHES asked if any statutes or regulations inhibit the ability of WTCAK to further international economic development in Alaska.

MR. WOLF said he would like to give that some thought and come back with a response.

CHAIR HUGHES talked about the importance of infrastructure development and affordable power.

12:22:37 PM

There being no further business to come before the committees, Chair Hughes adjourned the joint meeting of the Senate Special Committee on World Trade and the House Special Committee on Economic Development, Trade and Tourism at 12:22 p.m.