

SCR

5

HOUSE COMMITTEE REPORT

(11)

Date referred: 5/5/87

FURTHER REFERRALS:

5/15
Pula

DATE: 5-15-87

The Finance Committee has considered SCR 5

Relating to promotion and marketing of the state-operated international airports.

RECOMMENDS:

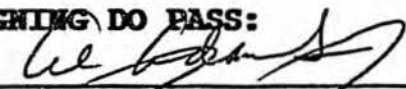
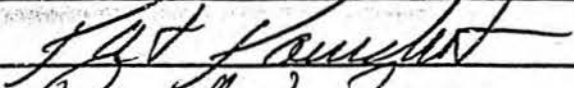
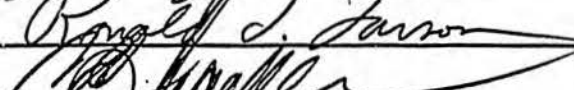
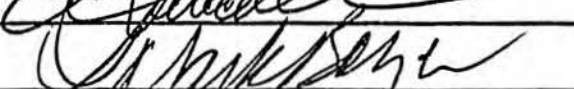
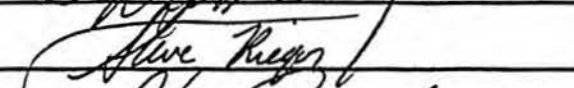
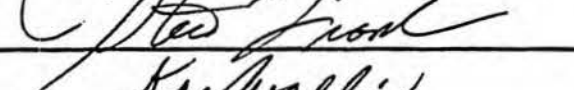
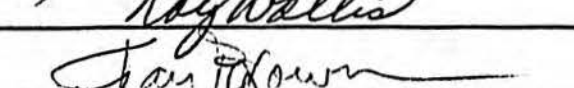

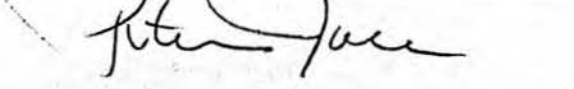

- replace with _____ the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent


ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:


 Chairman's signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE SENATE

BILL VERSION: SCR 5
PUBLISH DATE: 2/3/87

REQUEST

Bill/Resolution No.: SCR 5
Title: Re: promotion & marketing of state-operated international airports
Sponsor: Sturgulewski
Requestor: Senate Labor & Commerce
Date of Request: _____

FISCAL DETAIL

Agency Affected: DOTPF
BRU: International Airports
Components: _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER IARF	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by: Mark K. Johnson, Counsel
Division: Senate Labor & Commerce Committee

Phone: 465-3822
Date: 2-2-87

Approved by Commissioner: _____
Agency: _____

Date: _____

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

BY STURGULEWSKI, FAHRENKAMP,
HALFORD, KELLY, BENNETT, UEHLING,
SZYMANSKI, JOSEPHSON, BINKLEY,
RODEY, FAIKS, ABOOD, DUNCAN,
COGHILL, FISCHER, JONES, KERTTULA,
ZHAROFF, ELIASON AND HENSLEY

1 IN THE SENATE

2

SENATE CONCURRENT RESOLUTION NO. 5

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

Relating to promotion and marketing of

6

the state-operated international air-

7

ports.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS the state-operated international airports at Anchorage and
10 Fairbanks are sources of economic development and growth for the communi-
11 ties they serve and for the state; and

12 WHEREAS the Anchorage International Airport and the Fairbanks Interna-
13 tional Airport are important refueling points for transpolar and trans-
14 pacific flights carrying freight and passengers; and

15 WHEREAS the current success of the Anchorage International Airport and
16 the Fairbanks International Airport is jeopardized by the development of
17 new aircraft capable of flying nonstop between Europe and the Orient and by
18 competition from other airports serving the Pacific Rim; and

19 WHEREAS other major airports around the Pacific Rim are aggressively
20 promoting themselves to attract a greater share of the expanding trans-
21 pacific market, the international tourist market, and the air cargo
22 industry; and

23 WHEREAS the Anchorage International Airport and the Fairbanks Interna-
24 tional Airport have unlimited potential to provide a base for business
25 between Europe, Asia, and North America, if efforts are made to promote the
26 services, facilities, amenities, and other advantages of these airports;

27 BE IT RESOLVED that the Alaska State Legislature respectfully requests
28 the Governor to direct the Department of Transportation and Public Facili-
29 ties to initiate a program to promote and market the services, facilities,

1 amenities, and other advantages of the Anchorage International Airport and
2 the Fairbanks International Airport to the airline, air cargo, and tourist
3 industries in the transpolar and transpacific markets.

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: SCR No. 5

Publish Date: _____

REQUEST

Revision Date: _____
Title: Promotion & Marketing of the State-Operated International Airports.
Sponsor: Sturgulewski
Requestor: Jones

Agency Affected: DOT&PF
BRU: International Airports
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	250.0	750.0	750.0	750.0	750.0	750.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	250.0	750.0	750.0	750.0	750.0	750.0
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (IARF)	250.0	750.0	750.0	750.0	750.0	750.0
TOTAL	250.0	750.0	750.0	750.0	750.0	750.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: See Attached.

Prepared by: Ron Lind, Director
Division: Plans, Programs, & Budget

Phone: 465-2171
Date: 02/09/87

Approved by Commissioner: Rebel Anderson
Agency: DOT & PF

Date: 2/10/87

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

SCR 5

Fiscal Note Analysis

SCR No. 5

1. ANALYSIS OF FISCAL IMPACT ON EXISTING PROGRAMS.

DOT&PF has assumed IARF funding. Airport tenants and airlines pay fees sufficient to meet the costs of operating and improving the international airport system. At current total landed weight levels, each \$250,000 in expenses equals roughly \$.01 added to the landing fee. A \$750,000 increase in operating expenses could increase current landing fees by \$.03 per 1,000 pounds of aircraft takeoff weight.

Under the operating agreement between the Department and the airlines any material change in the operating and any change in the capital budget should be reviewed by the signatory airlines.

2. ANALYSIS OF FISCAL IMPACT ON NEW PROGRAMS.

A successful marketing plan should generate increased revenues. In this instance, anticipated revenue increases are impossible to predict because much of the marketing focus is to attract traffic to replace existing international traffic forecasted by the resolution to overfly Alaska because of new long-range aircraft technology making the Alaska stop unnecessary.

3. ANALYSIS OF EXPENDITURES

The contractual costs for FY 87 represent estimated costs for developing a marketing plan. FY 88 - 90 contractual costs represent estimated marketing program costs based on the Portland marketing budget. Portland and Seattle appear to be analogous to Anchorage since both are targeting worldwide markets. The Port of Seattle spends approximately \$1.2 million annually for tourism, cargo marketing and airport public relations. Assuming the Air Cargo Feasibility Study currently underway defines much of the cargo market potential, the tourism and public relations needs at Anchorage and Fairbanks may be able to be addressed with the \$750,000 annually --Portland's annual budget for marketing. Until further development work is done the mixture of direct staffing versus contractual activities cannot be determined.

4. OTHER INFORMATION

DOT&PF is in the process of gathering information on other airport marketing programs. Many of them are coordinated efforts with multimodal port authorities, municipal and state tourism agencies, local Chamber of Commerce groups, etc. Typically, a destination is marketed -- not an airport per se. DOT&PF envisions the same basic approach for Anchorage and Fairbanks airports. The marketing program needs to be a coordinated one with the IARF contributing to the overall efforts to market the State and promote broadbased economic development. The appropriate financial commitment for the airports will undoubtedly be a subject of negotiation with the other parties involved in promoting Alaska.

Alaska State Legislature



SENATOR
ARLISS STURGULEWSKI

Chairman, Senate Community and Regional Affairs Committee
Vice-Chairman, Senate Judiciary Committee
Member, Senate Resources Committee

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

While in Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

MEMORANDUM

May 14, 1987

TO: Representative Al Adams, Chairman
House Finance Committee

FROM: Senator Arliss Sturgulewski *AS*
Senate District F

RE: SCR 5 "Relating to promotion and marketing of state-operated
international airports"

SCR 5 "Relating to promotion and marketing of the state-operated international airports" has been referred to your committee. The lack of a marketing plan for the state's international airports could have a very serious negative impact on our state and I hope that you can schedule an early hearing.

My concern in sponsoring SCR 5 is that there is no marketing plan for the state-operated international airports at Anchorage and Fairbanks. This resolution merely asks the administration to initiate a marketing plan. It does not try to push any preconceived structure or budget.

There are serious concerns about the future financial health of the international airports. New technology, particularly the new Boeing wide-body 747-400's can fly from Europe to the Orient without refueling in Anchorage. Growing competition from Moscow as well as Pacific Northwest cities could have a negative impact on passenger and freight through Anchorage.

A 1985 study by the Alaska Department of Transportation and Public Facilities showed that the Anchorage International Airport generated more than \$1 billion for the Anchorage economy. This included more than 13,000 jobs with annual earnings of \$375 million. This, of course, is a major contributor to the state's economy that we cannot afford to lose.

My staff is available to provide backup material. Again, thank you for your consideration.

Sights

of Anchorage's international airport



THE NEED, then, to make our presence known is going to become increasingly important in the years ahead. And not just because others are doing it. At this time, Anchorage International faces a very critical challenge, that being the advancement of aviation technology.

I'm sure most of you have heard about the new Boeing 747-400 series aircraft. This aircraft is an advanced version of the B-747's which have served Anchorage International Airport for the past 15 years. However, the new 400-series requires only a two-person flight crew, compared with the three crew members required on all other 747's. It will be able to carry between 400 and 600 passengers, and will be able to fly approximately 8,000 miles non-stop. This will allow the aircraft to fly between Tokyo and Frankfurt, Singapore and Paris, or Hong Kong and London without refueling in Anchorage.

OUR WINDOW of opportunity is slowly closing, and we can't afford to wait. We need to sell Anchorage International as a place the airlines will want on their route schedules — whether it be for passengers, cargo or simply refueling. And the most direct way to go about this task is to mount a marketing campaign, promoting our plant and its services to the world.

Funds for marketing the airport are already available. Revenues from the airport's operation go into a reserve account. The money is there.

Once a line item dedicated to marketing the airport is budgeted by the state, a cooperative effort can be developed, whereby funds from private and public sources would be combined to develop a generic campaign. We believe it will take approximately \$3-\$5 million to develop and implement a comprehensive marketing plan for the airport. This seems like a reasonable amount to launch a program to reach the world's markets.

Which revenue streams need to be protected and developed?

Obvious ones are, of course, those passengers who are stopping over in Anchorage, on their way to or from a primary destination. Our research shows that 84 percent of those on flights stopping over in Anchorage would be interested in a stay of four to seven days. One-half of those would have stopped on the trip they were on if they would have known they could.

One good example of a stopover program was developed by the Port Authority of New York and New Jersey for passengers transitting through the three major airports: Kennedy International, Newark International and LaGuardia. They call it, "On Your Way Over, Stopover." The package includes one-night hotel at a choice of hotels, sightseeing, VIP shopping service at Macy's or Bloomingdales with language assistance, a choice of Broadway theatre tickets, a welcome kit, etc., all at a low

package price. They've advertised this program in periodicals all over Europe.

Other international passengers of great interest to us are those on either end of the transpolar route who could be persuaded to use Alaska as a visitor destination. New research by the state of Alaska shows that the potential for Japanese and German visitors selecting Anchorage as a visitor destination nearly equals the potential for visitors coming from the U.S. If we do our job right in selling our destination, it is possible that we could attract an additional 200,000 visitors a year from Germany and Japan, or a 50 percent increase in vacation or pleasure travel.

WHILE PASSENGERS are important, air freight offers even greater potential for growth. By increasing freight handling at AIA, we would see an increase in landing revenues (which are based on the gross takeoff weight of the aircraft) and fuel revenues for the airport.

International air freight is a rapidly growing market. In recent years, international air cargo shipments have increased at twice the rate of passenger travel.

The most cost-effective freight for air transportation is low-volume, high-value, and relatively low-weight products, such as electronic components, mini-computers, and precision instruments. Other less obvious air freight products are those with time-sensitivity, such as high-fashion apparel, pharmaceuticals, animals, produce, seeds and flowers. These markets need to be actively developed.

I mentioned fuel fees, and I'd like to stress that fuel is an important revenue stream. The airport operates a fuel storage farm and many operators have underground storage tanks. On an average day, approximately 1.2 million gallons are pumped. This means approximately \$24,000 a day, or \$9 million annually in fuel flowage fees.

Who is backing the plan to market the International Airport? This idea was further advanced by the Anchorage Business Council's Airport Committee, which I happen to co-chair, and others. The council, by the way, was formed by Mayor Tony Knowles with the mission of spurring economic development in Anchorage. Both the municipality and the Anchorage Business Council have endorsed our committee's recommendation. The Greater Anchorage Chamber of Commerce has since given the idea its full support, along with the Anchorage Convention and Visitors Bureau.

We'd like to invite your support as well, because as residents of Alaska and users of the airport, you have a stake in its future operation. We presently have the lead time to plan for the decade ahead. But we can't afford to wait. We need to plan for the 21st Century now.

Seattle-Tacoma of Seattle, which had an aggressive transpacific market and the brochures and an have a staff of actively calls on ac's excellent in-rt premises, such ight forwarders, plentiful terminal ample runway cal- cal concerns. es have helped to airports in the volume. In 1982, 8,000 metric tons Tac. By 1985, the increased to 11.5 Freight went up t.

Anchorage International Faces Uncertain Times Ahead

Concerns range from the present domestic traffic drop-off from the oil industry's slump, to the future effects of longer-range aircraft that won't need to refuel at Anchorage. An occasional moose on the runway is just part of the job.

By Bruce Johnson

Anchorage—International flight stopovers, Alaska's dependence on air transportation and the deregulation of the domestic airline industry all are making Anchorage International Airport a much busier place than the area's population of about 250,000 persons would suggest.

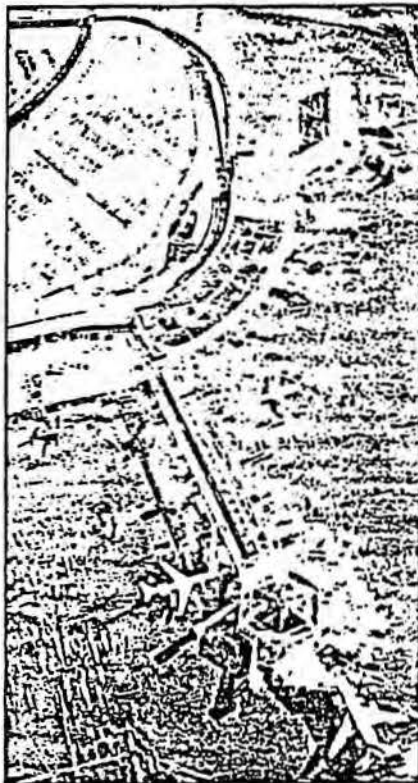
Among the nation's 36 medium-sized air traffic hubs, Anchorage ranks second in number of revenue passengers. Indeed, last year more than 4.6 million passengers were handled at the airport.

But unlike in many communities as large as or even much larger than that of the Anchorage vicinity, there is real meaning behind the "international" portion of the Anchorage airport's name. Of its 4.6 million passenger total last year, more than 1.6 million were classified as through passengers—largely visitors to the airport during refueling/reprovisioning of aircraft flying between the Orient and Europe. No less than ten international carriers have stopover operations at Anchorage International. The latest to join the list is Swissair, operating between Tokyo and Zurich.

Because of Anchorage's central position between Europe and Asia on the polar route, Anchorage International ranks seventh in the United States in terms of international operations. Flights take about nine hours between Anchorage and Europe and about seven hours between Anchorage and Tokyo. The longest nonstop flight between Anchorage and Asia is flown by China Airlines to Taiwan—almost 10 hours.

"We average 40 to 55 widebody aircraft per day here," said Guy Russo, airport director. "Most of those widebody visits involve international stopovers, including freighters."

In order to more effectively accommodate this heavy international side of the business, the airport authority recently added five remote fueling pits. The airport now has eight such parking positions—all dedicated to international



With prices so low, at least half of the oil industry's Alaska exploration activity has been halted, resulting in a reduction of personnel and freight moving through the Anchorage airport.

stopovers. In addition, three years ago the airport completed construction of an international terminal that serves passengers while their planes are being refueled and reprovisioned. The terminal contains a duty-free shop that Russo unabashedly claims is "one of the nicest in the world."

The airport's main terminal—dedicated to domestic traffic—accommodates intrastate commuter operations as well as the half-dozen airlines that link Anchorage with the "Lower 48," primarily through Seattle-Tacoma International Airport.

"We run around 6000 seats a day going south from here," Russo said. That capacity includes a daily United Airlines flight direct to Chicago and a Northwest Airlines flight to Minneapolis.

Extremely air-dependent

Deregulation, as well as this giant northern state's extreme dependence on air transportation, is responsible for a marked increase in the number of seats (and decrease in rates—see separate story) being experienced in the Seattle-Anchorage corridor, in particular.

In March, AirCal extended its regional operations to Anchorage and quickly expanded the schedule there to four flights daily. Another newcomer is TWA, with one domestic flight per day out of Seattle.

Anchorage International—state-owned and the largest airport in the state—serves as the main hub for persons flying to or from most places in Alaska, which has a total population of little more than twice that of the Anchorage area. In-state destinations include Fairbanks (which has the second largest airport, also state-owned) in the interior, the Prudhoe Bay oil field area on the North Slope, and remote fishing and other communities in the Kenai Peninsula, Gulf of Alaska mainland, Kodiak Island, western Alaska and the Aleutian Islands areas.

The popular tourist region of Southeast Alaska, also containing the state capital of Juneau, is served directly out of Anchorage as well as from Seattle.

Traffic tied to oil

Although Lower 48 domestic and in-state commuter business remains strong this summer at Anchorage International, the airport is likely to see a

An airport economic impact study last year revealed that airlines paid for nearly 69,000 hotel rooms in Anchorage due to crew and unscheduled passenger layovers.



greater-than-normal drop in business this fall and winter following the summer peak season of tourists, fish processors and fishermen. This is due to the dramatic downturn earlier this year in world crude oil prices. With prices so low, at least half of the oil industry's Alaska exploration activity has been halted, resulting in a reduction of personnel and freight moving through the Anchorage airport.

Also beginning to adversely affect air travel, particularly of business people, is a downturn in North Slope oil revenues flowing into the state government coffers, and the adverse spinoff impact that this is starting to have on Alaska business and individuals in general.

The dominant carriers in the highest-volume portions of the intrastate markets are MarkAir, a relatively new carrier that is solely an in-state operator, and Alaska Airlines, which also is the highest-volume scheduled carrier between the Lower 48 and Anchorage. In addition, United, Northwest, AirCal and TWA compete, as does Western Airlines, a veteran, high-volume operator of the Lower 48-Anchorage trade.

Russo is a longtime Western hand. The airport's director, who has been working in Alaska since 1955, retired as Western's Alaska regional director in January 1983. A year later, he was appointed director of Anchorage International.

Weakening stopovers

During his many years at Anchorage, Russo has seen a dramatic increase in international stopover business. In 1973,

he recalled, the airport logged little more than 700,000 international passengers. "That segment of the airport's business surpassed the one-million-person mark for the first time in 1978," he noted.

International stopovers are good business for the Anchorage community. Besides refueling (32.5 million gallons last April, for example) and re-provisioning, fresh flight crews are accommodated for two to four days at a time at Anchorage, depending on flight and personnel schedules. Indeed, an airport economic impact study conducted last year by Applied Economics Associates (AEA), revealed that airlines paid for nearly 69,000 hotel rooms in Anchorage due to crew and unscheduled passenger layovers.

Unfortunately, this lucrative international stopover business is showing signs of weakening somewhat.

Because Asians appear to be traveling to Europe as well as other destinations

in increasing numbers, the slight slowdown in Anchorage's international business does not appear to be linked to the terrorism-caused falloff in American travel to Europe. Rather, the slight weakening of Anchorage's international activity could be related to a rise in increased competition from the Asia-Europe route via northern Siberia.

The AEA report noted that at least two international carriers—JAL and SAS—have exercised transit rights through Soviet airspace and that some other carriers are contemplating route changes via Russia.

Of longer term concern at Anchorage is the possible adverse effect on international stopovers that Boeing Co.'s development of the longer-range 747-400 will have.

"We're now in a unique position, I guess, similar to what Gander was during the prop aircraft days across the Atlantic; but I suppose we're going to be faced with some loss of business when the Boeing 747-400 comes on line," Russo reflected.

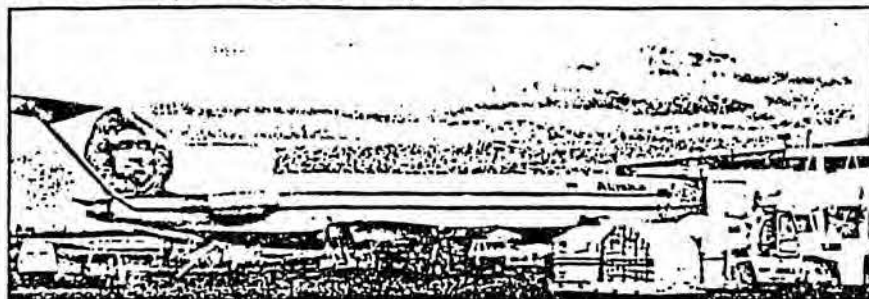
He observed that the 747-400 will be capable of flying 8000 statute miles—enough to fly the plane nonstop between Asia and Europe via the American and Canadian airspace polar route.

"Not all of the airlines of Europe are going to afford the luxury of having a 747-400," Russo reasoned, but he admits that "some" 747-400-caused deterioration of international stopover business is anticipated during the next decade after the new model enters service.

Reacting to the recent downturn in Alaska's economy caused by the collapse of crude oil prices, the state is intensifying its efforts to attract tourists—international as well as domestic visitors. As part of these efforts, it is focusing increased attention on marketing Alaska as a destination—not just a stopover—for Asian and European tourists. Presently, only about 25,000 international passengers disembark each year at Anchorage to spend some time in Alaska.

"We get quite a few (big-game) hunt-

In 1983 Anchorage International handled half of total tonnage flowing through all of the nation's medium-sized airports—an air freight volume only slightly less than that passing through LAX or JFK.



Alaska Airlines carries highest Alaska-Lower 48 volume.

ers from Austria, Germany and other European countries, and the Japanese like to fish," Russo observed. But he said there is considerable untapped potential for attracting international visitors on the basis of Alaska's spectacular scenery of mountains, glaciers and fjords as well as its cultural and other attractions.

"The long-haul seats are what the airlines are going to fill first," Russo acknowledged concerning the superior revenues generated by Asia-Europe traffic as opposed to Asia-Alaska or Europe-Alaska traffic. But because of the state's international promotion efforts, he is optimistic that more international passengers will disembark at Anchorage.

Heavy traffic, plus floats

Anchorage International, which had 36,738 jet aircraft landings last year, has three 11,400-foot runways—two of which are parallel east-west runways that are instrumented. The third, a north-south runway, is not instrumented. Simultaneous landings and takeoffs occur routinely at the airport. Because of prevailing winds, landings usually are from west to east and takeoffs are from south to north.

Air traffic is heavy in the Anchorage area. Not only do the northerly takeoffs encroach on military plane approaches at Elmendorf Air Force Base, but Anchorage International itself has a large general aviation facility for both wheeled and float planes.

The FAA-operated tower at the airport coordinates commercial and general aviation traffic, each of which has separate traffic patterns.

One of the more interesting aspects of the Anchorage International operation is its base for float planes. Two natural lakes—connected through dredging—are located adjacent to the airport and are ideal for float plane operations. In addition, next to one of the lakes is a general aviation dirt strip.

"We have at least a thousand, maybe 1200, general aviation airplanes around the airport here," Russo related. "People jump into their airplanes here on weekends like people in the Lower 48 jump into their cars."

As far as airliner operations are concerned, the only congestion occurs when, as the airport director puts it, the planes are scheduled to "fly out of here in formation."

Anchorage International has the usual morning (7:30 to 9) and late afternoon (4 to 6:30) peaks in traffic. But in a departure from the norm, the airport also has a peak period between midnight and 2 a.m. This is due to the desire of many passengers wanting red eye flights to Seattle for catching early morning Lower 48 flights there.

Because the airport is getting close to

"We're now in a unique position, I guess, similar to what Gander was during the prop aircraft days, but I suppose we're going to be faced with some loss of business when the Boeing 747-400 comes on line."

gate capacity during those three periods, continued redevelopment and expansion of terminal facilities is being planned.

Extensive changes coming

The airport, which went on line in 1953 in part to accommodate international refueling stopovers between Europe and Asia, has been undergoing extensive facility changes in recent years.

Last September, a commuter carrier wing was added at Concourse C, and domestic carrier gates were added and renovations were accomplished at Concourse B—at a total cost of about \$25 million. Anchorage International now has eight widebody gates at the international terminal and 20 domestic and five commuter gates at the main terminal. Concourse A has eight gates, but only three are equipped with jetways because of extensive use of combi planes (with freight forward) into Anchorage. Newly renovated Concourse B has 12 gates, all with jetways. Seven of the airport's domestic gates handle widebody aircraft.

In order to keep up with market demand, construction is underway on a \$25 million, 1200-vehicle parking garage with an underground connection to the terminal building lobby. In addition, plans are being made for demolishing the original, 1953-vintage section of the terminal and building another concourse that will be designed for eventual development of a wing stretching between the domestic and international terminals.

When this new building—Concourse

"We have at least a thousand, maybe 1200, general aviation airplanes around the airport. People jump into their airplanes here on weekends like people in the Lower 48 jump into their cars."

C—comes on stream several years from now, there will be a major reassignment of gates at the airport. Said Russo, "Operating efficiency will be enhanced significantly. All commuter flights will be consolidated in one area, narrow-body planes are moved into their own area, and widebody domestic flights will be accommodated out of the new and enlarged Concourse C."

Although state owned and operated, Anchorage International has not shared in the spending spree for capital improvements and other projects undertaken by the state government, whose coffers became swelled with oil revenues. All of Anchorage International's expenditures have been supported by operational revenues, Russo reported.

"We didn't benefit from the (state government financial) upturn, and we're not getting hurt by the downturn," he observed.

Freight—the airport's ace

Besides being an important hub for passengers, Anchorage International is a major factor in the movement of air freight.

In fact, the facility ranks first (among the nation's 36 medium-sized air traffic hubs) in the amount of revenue freight handled. Last year alone the airport logged nearly 316.8 million pounds of freight. In 1983, the AEA economic impact study noted, Anchorage International handled a half of total tonnage flowing through all of the nation's medium-sized airports and that the air freight volume at Anchorage was only slightly less than that passing through LAX or JFK that year.

Lots of time-sensitive general freight flows into or through Anchorage airport as belly and freighter traffic from the Lower 48. Most of the freight flow is one way, although fresh fish is a strong backhaul during summers.

Interestingly, the Anchorage airport traditionally has more departing air freight than arriving air freight. This is mainly due to certain freight arriving on express steamship services operating between Washington state and the Port of Anchorage, from where the freight is trucked to the airport for fast distribution by air to in-state destinations.

Milder than Minneapolis

To someone on the "outside"—a term commonly used is Alaska to denote the Lower 48—Alaska is seen as a state plagued with heavy snow and intense cold. But Anchorage, adjacent to saltwater at the head of Cook Inlet, usually has milder winter weather than is often experienced by cities in the northern tier of the Midwest and the Northeast, Russo observed.

Two feet of snowfall is about average during the winter at Anchorage. Usually, the snow comes only a few inches

at a time, although snowstorms—including an 18-inch snowfall last March—are not uncommon. Twenty degrees below zero is about the coldest the temperature gets at Anchorage, with zero being the usual low temperature during the winter, according to Russo. Average low temperatures in the winter are 15 to 20 degrees.

With winter weather usually being milder than at Minneapolis, for example, Anchorage International does not experience abnormal snow removal problems. The airport authority has about 100 pieces of equipment that can be used for snow removal, including graders, grader-towed sweepers, blowers and trucks, plus front-end loaders for hauling snow to remote areas of the airport.

Even during heavy snowfalls, "we're able to keep at least one runway open at all times," Russo said. "It takes us 45 minutes to an hour to get a runway totally clean and back in operation."

Visitors: VIPs and moose

Actually, moose—not snowfalls—create the biggest runway operation problem at Anchorage International.

"A big concern is keeping moose off the runways in the fall and spring,"

"A big concern is keeping moose off the runways in the fall and spring; they're capable of going through the fence or they can jump over the fence."

Russo said. "They're capable of going through the fence or they can jump over the fence."

The airport perimeter has an eight-foot-high chain link fence topped with barbed wire, but each year eight to 10 moose—which Russo terms "very stubborn animals"—either are detected near the fence or have broken through or jumped over the fence.

"If we can't herd them out, we have permission from (state) Fish and Game to destroy the moose," Russo said. "We give the meat to a charitable organization."

Besides patrolling for moose, airport security personnel occasionally have extra work to do because of stopovers by international dignitaries, whose planes are being refueled. Japan's Prime Minister Nakasone is a frequent visitor.

Also a familiar personality is Great Britain's Margaret Thatcher.

The international terminal has a VIP lounge to accommodate those and certain other international visitors, but frequently international dignitaries desire a trip to and from downtown Anchorage—little more than four miles from the airport.

Russo noted that the U.S. Secret Service has personnel based at Anchorage and that Secret Service people from West Coast states are flown north when necessary to augment the Alaska contingent.

The eruption last Easter weekend of Mt. St. Augustine, a volcano about 150 miles from Anchorage, also has made life interesting lately for Russo.

"We never closed the airport, but some of the carriers chose not to come in," he said. "They were concerned about volcanic ash in the air and the effect it would have on jet engines."

So, for several days while the wind blew some ash into Anchorage, flight schedules were seriously disrupted. During that time, the airport lost about 75 percent of its overall traffic load. Ironically, that disruption was far greater than the airport has ever experienced from winter weather. ■

Alaska's Economic High Flyer

By MARK HARRIS

Russia never would have sold Alaska to the United States had air transportation been a fact of life in 1867. A vast stretch of wilderness, Alaska has evolved into one of the world's key points in terms of commerce and military defense by air.

Alaska has the distinction of being the most important link in the Orient-North America-Europe air transport chain. It is the vital front line in the United States' northern hemisphere air defense system. Alaska also is the state most dependent on air service for supplying and distributing goods and moving people.

Alaska could not sustain a state capital in Juneau or oil industry operations on the North Slope without aviation services. Small rural communities could not prosper and grow without regular air cargo and passenger service. Mineral and forest development, tourism and even the state's vital fishing industry would be retarded without today's air services network.

Simply put, Alaska would be just another economic backwater — instead of an increasingly important player in national and world trade — without a well-developed domestic and international air-service system.

State and federal governments realize all this, as evidenced by the importance placed on airport construction, upgrades and maintenance funding in Alaska. The Department of Transportation and Public Facilities spent \$39 million on airport construction and improvements in fiscal 1986. Since the funding was mainly federal, fiscal 1986 here refers to the October-to-October federal fiscal year. The state spent another \$13.7 million on airport operations and maintenance in fiscal 1986 — the state's July-to-July fiscal year, that is.

The above figures pertain to rural airfields only. The state's two international airports, Anchorage and Fairbanks, are administered under a separate arrangement with improvements funded partially through revenues generated by airport operations.

AC&O estimates DOT/PF will spend \$30 million to \$35 million on airport-related construction and improvements in FY 1987.

The DOT/PF's ongoing six-year capital improvement program for airports is updated annually. Table 1 shows examples of airport construction projects currently planned through the third quarter of 1987. It should be noted that funding levels, priorities and project completion dates are in constant flux. For this reason, it is impossible to provide a full and accurate listing of upcoming projects.

A single airport construction or expansion project in rural Alaska can run between \$2 million and \$7 million, according to a 1984 DOT/PF study. (See Table 2, p. 11.) This assumes a gravel surface, 5,000-sq.-yd. apron and a 100-ft. by 50-ft. taxiway.

A lighting system could add another \$40 to \$50 per lin. ft. of runway, depending on lighting requirements and power source, according to the report.

A federal-state appropriation ratio of 96 percent to 4 percent makes the costly Bush airport construction program possible. However, this funding level is far from secure. Like federal highway funding, aviation fund money is apportioned to states on a formula constantly subjected to political attack by heavily populated states.

There are some 1,000 recognized airports and airstrips in Alaska, of which 162 are in the Cook Inlet basin population center. Most are little more than private gravel strips.

The Department of Transportation and Public Facilities controls and maintains 270 airports statewide and 23 in the busy Cook Inlet region. The state's airport/air service classification system places airports in nine categories with four main classifications:

- **International airports** — These are major international and interstate access points to Alaska. Anchorage International and Fairbanks International are the state's only international airports.

- **Regional centers** — These are primary intrastate access points to regional centers with populations above 1,000. The Juneau and Ketchikan airports would be examples.

- **Regional** — These are secondary intrastate access points within a region. Homer and Kenai have such airports.

- **Transport** — These are primary access points to medium-sized communities and, like the first three, are bases for private aviation served by scheduled carriers, air taxi, mail and

TABLE 1
DOT/PF Preliminary Schedule for
1987 Airport Construction-Improvement

Project Description	Estimated Value
Petersburg Airport Runway & Apron Repair	\$ 250,000 to 500,000
Angeon Seaplane Basin	1,000,000 to 1,500,000
Haines Airport Improvement	250,000 to 500,000
Ketchikan Seaplane Basin	250,000 to 500,000
Mountain Village Airport Relocation	2,000,000 to 3,000,000
Grayling Airport Improvements	1,000,000 to 1,500,000
Kodiak Airport Lighting	500,000 to 750,000
Anchorage International Airport Ramp	500,000 to 750,000
Bethel Airport South Apron Paving	750,000 to 1,000,000
Birchwood Airport Improvements	750,000 to 1,000,000
Cold Bay Airport Resurfacing	2,000,000 to 3,000,000
Goose Bay Airport Lighting	500,000 to 750,000
Unalaska Runway Extension	1,000,000 to 1,500,000
Kotzebue Airport Improvements	2,000,000 to 3,000,000
Allakaket Airport Lighting	250,000 to 500,000
Golovin Airport Relocation	2,000,000 to 3,000,000
Tok Airport Improvements	750,000 to 1,000,000
Council Airport Improvements	1,500,000 to 2,000,000
Nome Airport N/S Runway Repair	3,000,000 to 4,000,000
Chalkyitsik Airport Improvements	500,000 to 750,000

Source: Alaska Department of Transportation and Public Facilities

air cargo services. The Bethel airport is an example.

The vast majority of airports fall into the community and local categories. These are access points to small rural communities served by non-scheduled service and recreational or emergency airstrips, often privately owned.

Ironically, Merrill Field in Anchorage is classed as a community airport. The municipal airport has about 300,000 operations (take-offs and landings) a year, more than Anchorage International Airport.

A multi-year improvement program will wrap up at Merrill Field this summer. Wilder Construction Co. has nearly completed a \$4-million contract for work on aprons, perimeter roads, tiedowns, lighting, storm drains and landscaping. Rogers and Babler, an Anchorage company, will finish this summer a \$3.2-million project involving more apron work, tiedowns and storm drains. Both are Anchorage-based construction companies.

The Anchorage and Fairbanks airports are the key hubs for international, interstate and intrastate air travel and commerce. Together they open Alaska to the world and comprise the Alaska Airport System, a fiscal entity all its own.

Anchorage International

Anchorage International Airport is the heart of the state's air circulatory system. It also is of great economic importance to the Anchorage economy.

A 1984 Department of Transportation and Public Facilities study showed that AIA had a direct and indirect economic impact of \$1.151 billion on the municipality in 1983. (See Table 3, p. 12.)

The study showed that transportation, visitor-related activities, freight forwarding and travel arrangements were of key importance to the growth of Anchorage. Within these four categories, 13,472 people were employed. Those people, about 12.8 percent of the total Anchorage area workforce, earned \$375 million in a year. That comes to more than \$1 million per day in payroll and \$4.1 million per day in economic benefit to the Anchorage bowl area.

While more current figures are not available, a look at fiscal 1986 airport operations statistics leads us to believe the overall economic impact of AIA has continued to grow.

In fiscal 1986 (ended June 30, 1986) AIA had 4,633,845 passenger boardings, deboardings and transfers. That's equivalent to moving the entire population of Washington state through the airport.

About 150,174 tons of freight entered or left the airport, and 72,034 landings also generated revenue. More than 37,500 commercial jet aircraft made use of the facility.

The airport also supports an Air National Guard base from which C-130 aircraft make about 2,600 takeoffs and landings a year.

The Jet Set

International travel is a mainstay of both the Anchorage and Fairbanks airports, even though Fairbanks serves no international flights. Revenue for both airports is channeled through the International Airports Revenue Fund, created by the Alaska Legislature in 1961. Of the fund's \$47.9 million in revenues during fiscal 1986, all but \$3.5 million was generated by Anchorage International Airport. About 57 percent of the revenue for both airports is generated by international traffic at AIA. Another 38 percent comes from domestic (interstate and intrastate) traffic at both airports, with the remainder generated by general aviation and other activities.

AIA is served by 36 airlines: 19 international carriers (cargo and passenger), nine interstate and eight intrastate airlines. It is strategically located to serve as a refueling stop for nine international cargo and passenger airlines and for 10 airlines that take on (enplane) and let off (deplane) passengers and freight. All these flights use the polar route between the Far East and Europe or routes linking the Lower 48 states with the Orient.

A flight from Paris to Tokyo, for example, must avoid Soviet airspace. So a dogleg route is used over Greenland to Anchorage then over the Pacific to Japan. Also, Anchorage is in a direct flight pattern for a flight from Tokyo to Chicago.

More than 1.5 million international passengers used AIA in fiscal 1986, and they spent more than \$15 million in the duty-free shops and other concessions. Another 27,700 people began their international trips from Anchorage, while 1.5 million more boarded domestic and instate flights.

By June 30 of this year, AIA will have served another 3.2 million domestic and international passengers. That number will grow by some 350,000 by the end of fiscal 1990, according to one consultant's estimate. The same forecast calls for 74,866 domestic, international and all-cargo aircraft departures from the airport by mid 1987 and 82,270 such departures in FY 1990. These figures may be optimistic and certainly don't reflect growth in every sector through the end of the century.

There is increasing concern that new aircraft now being ordered by international carriers will fly over Anchorage. The Boeing 747-400, for example, can carry up to 600 passengers and fly some 8,000 mi. non-stop. This will allow the

TABLE 2
Airport Construction Costs
by Runway Dimensions

Runway Length X Width	Aircraft Capacity	Cost Estimate
2,100-2,500 x 50-60 ft.	Single & light twin-engine, some STOL turbo-prop (twin Otter, Skyvan), VFR operations.	\$1,900,000 to 2,850,000
2,600-3,400 x 75 ft.	Single and multi-engine, some larger STOL (DASH-7), VFR or non-precision IFR operations.	\$2,750,000 to 3,540,000
3,500-4,600 x 100 ft.	Small and medium turbo-prop, VFR or non-precision IFR operations.	\$3,353,000 to 4,400,000
4,700-7,500 x 100 ft.	Medium, large turbo-prop (C-130 Hercules, L188 Electra); precision or non-precision IFR and VFR operations.	\$4,000,000 to 6,830,000

IFR = Instrument Flight Rules

VFR = Visual Flight Rules

STOL = Short Takeoff and Landing Aircraft

Note: Construction costs include 10-percent design engineering and 15-percent administration and inspection costs.

Source: Cook Inlet Transportation and Resource Development Plan, 1984

aircraft to operate between Tokyo and Frankfurt, Singapore and Paris, or Hong Kong and London without the currently required refueling stop in Anchorage.

The city could lose more than 500,000 stopover passengers by 1990 plus the revenue gain from landing fees and refueling, according to a consultant's estimate. That is cause for alarm considering the millions of dollars in Airport System funding generated by international landing fees, fuel flowage fees and patronage of duty-free concessions by in-transit and Alaska destination passengers.

Concern about the potential loss of visitor revenue has led the Anchorage business community to call for greater airport marketing efforts by the state. The Legislature is under pressure to place \$3 million to \$5 million in the airport's FY 88 budget just for marketing promotion.

The idea of the Municipality of Anchorage or an independent authority taking over the airport also has gained new interest. Many feel the city could better administer and promote AIA to potential air carrier customers.

Building to Keep Up

The domestic and regional passenger sector is projected to grow as are the general aviation and air cargo sectors. (See Table 4.) This growth in activity calls for a corresponding growth in facilities. In 1986, AIA spent \$37.6 million on capital projects and will have spent another \$16.4 million by the end of FY 87.

Projects completed or in progress to date include construction and remodeling of a domestic terminal concourse, a 1,200-space parking garage, west apron reconstruction, remote refueling apron construction, installation of concrete hardstands (pads) for remote parking positions, installation of a ground radar system and demolition of the old airport post office building.

Anchorage airport officials have a \$28-million wish list for work to be done in FY 1988 en route to the Alaska Legislature. The full capital improvement spending plan for FY 88 through FY 93 calls for \$211.8 million in project, maintenance and equipment funding.

Key projects for 1988 include overlay and grove runway 6R/24L, \$2 million; structure for consolidating crash/fire/rescue operations, \$4 million; Phase III domestic terminal expansion, \$11 million; domestic and international terminal repair and rehabilitation, \$5 million; reconstruction of five taxiways,

\$1.4 million; concrete ramp surfacing, \$1 million; and general aviation paving, \$1 million.

Another \$11.6 million would be needed to move private aviation parking away from the congested international terminal area, relocate the gravel airstrip and enlarge Lake Hood to provide more floatplane slips. About 1,200 private aircraft operate out of AIA and Lake Spenard-Lake Hood.

Already under way is a \$13.2-million noise monitoring and abatement program. Coffman Associates Inc., an airport consulting firm with offices in Anchorage, is conducting the Airport Noise Compatibility Study in conjunction with an International Airport Master Plan update.

The master plan recommends building consolidated freight handling facilities on vacant land along the north-south runway. Air freight services and cargo handlers would lease airport-owned warehouse, office and apron space.

One 25,000-sq.-ft. apron, capable of accommodating a B-747 aircraft, has been constructed. An estimated 1.7 million sq. ft. of apron area will be needed during the next 20 years, according to Coffman.

A DOT/PF report states, "In 1983, 224,000 tons of enplaned revenue freight passed through the airport, ac-

ording to FAA statistics. That was fully one-half of the total tonnage of all the 36 medium-size hub airports in the United States combined, and only slightly less than the tonnage passing through the Los Angeles International and Kennedy International airports. By comparison, 72,200 tons of freight were enplaned at the Seattle-Tacoma International Airport that year."

The master plan further recommends moving the current airport maintenance storage area from behind the main post office to an area south of Runway 6R and west of South Air Park.

A new fuel tank farm also is suggested, possibly at the corner of West Northern Lights Boulevard and Post Mark Drive or on the west side of the airport. A Coffman report states, "Ultimately, the fuel system could be connected to the Nikiski Pipeline, thereby eliminating use of the Alaska Railroad for fuel transport from the Port of Anchorage to the airport." About 1.2 million gal. of fuel is pumped on an average day at AIA.

Fairbanks International Airport

The Fairbanks facility was designated an international airport in 1948. It has since played a key role in Interior growth and North Slope oil field development.

TABLE 3
Economic Impact of
Anchorage International Airport

Impact Measure	Direct Impact	Indirect & Induced Impact	Total Impact
Output (\$)	\$697,600,000	\$453,500,000	\$1,151,100,000
Earnings (\$)	\$223,000,000	\$151,600,000	\$ 374,600,000
Employees	8,086	5,386	13,472

TABLE 4
AIA Operations Forecast

Activity	1985	1990	1995	2005
Annual Operations:				
Domestic and Regional	92,802	101,200	131,800	165,200
International	26,030	26,000	27,400	33,900
General Aviation	200,340	231,520	267,330	308,570
Military	2,289	3,000	3,000	3,000
Total Operations	321,461	361,720	429,530	510,670
Annual Passengers:				
Enplaned	1,391,470	1,775,400	2,189,200	2,632,700
Transit	1,573,905	1,240,000	1,000,000	1,000,000
Air Cargo*:				
Outbound	189	241	281	363
Inbound	139	165	194	253
Total Air Cargo	328	406	476	652
Based Aircraft:	1,167	1,447	1,692	1,870

*In millions of lb.

Source: Coffman Associates for DOT/PF, January 1986

Classified as a small hub airport, FIA serves as a weather diversion airport for polar route traffic. It can accommodate 747-type aircraft, refuel them with 30,000 gal. and get them back in the air in less than an hour.

FIA handled about 600,000 passengers in fiscal 1985. About 260,500 of them boarded commercial flights at the airport. This was down from the peak of 301,288 in 1983. The number of people boarding flights in Fairbanks increased by about 10 percent a year between 1980 and 1983, but passenger traffic has been declining since.

About 25,000 tons of freight, of which 19,400 tons was enplaned freight, moved through the airport last year. This compares to 50,580 tons of enplaned freight in fiscal 1980.

With 80,000 takeoffs and landings annually, FIA is the second busiest domestic flight destination in Alaska, according to airport director Doyle C. Ruff. In 1986, there were 14,600 cargo and passenger airline revenue landings. This indicates the vast majority of flight operations are related to private aviation.

FIA operations are largely funded through the International Airports Revenue Fund. After deducting operating expenses, AIA showed \$19.8 million in operations income while FIA had a \$6.6-million loss. Consequently, Anchorage's larger traffic base was able to subsidize the smaller Fairbanks operation and show an IARF balance of \$13.2 million.

Capital projects at FIA, as at AIA, are funded largely through federal appropriations. In fiscal 1986, FIA had \$9.4 million in capital projects, \$5.1 million funded with federal dollars. About \$4.3 million in work is programmed for FY 87. Another \$5.1 million of work is on the drawing boards for FY 88.

Construction work over recent years has added a hydrant fuel system capable of handling aircraft serving international as well as domestic routes. Also, a terminal expansion and renovation project doubled the building's capacity to serve the traveling public.

Other work has included a 13-percent increase in apron area, a 41-percent increase in lane miles of road and a 35-percent increase in auto parking spaces. A 1984-85 project upgraded general aviation parking, aprons, runways and taxiways and added new taxiway and aircraft parking facilities.

A float plane pond was expanded to 6,300 ft. and the number of tiedown berths was doubled to 184.

In 1986, the airport's 10,300-ft. main runway was reconditioned and grooved, a parallel taxiway resurfaced and the runway lighting system upgraded.

Fairbanks International is in the enviable position of not needing major capital project financing as it enters a new five-year planning period. However, an airport is never "finished."

New projects on the books include an extension of the main aircraft parking apron, perimeter vehicle road construction and crash/fire/rescue building upgrades.

As noted, DOT/PF operates the two

international airports separately from the network of smaller airfields and landing strips around the state. Yet all the state's air travel and commerce facilities are interdependent.

Alaska is the flyingest state in the union and the one most dependent on air service for daily living and economic growth. Continued long-term planning and timely facility repairs and upgrades, coupled with a sustained capital projects program, translate into a healthy air transport industry — something Alaska will need long after all the oil is gone. □

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MEMORANDUM

State of Alaska

TO: See Distribution List

DATE: August 25, 1986

FILE NO.:

THRU:

TELEPHONE NO.:

FROM: E. John Pearson
Travel Development Specialist
Division of Tourism

SUBJECT: Anchorage Overflight
Issue

Several days ago, I received a copy of a respected airline industry intelligence publication from England which provides an outstanding situational analysis of the overflight issue.

In reading this material (which was published in spring), you should keep in mind my previous memos that reported other airlines as having taken action on future overflights. These actions are not reported in the attached publication. So the situation is much more critical than reported herein.

There should be no question in anyone's mind that we are faced with a grim situation that few understand. It is, therefore, essential that information such as this receives the widest circulation among key opinion formers.

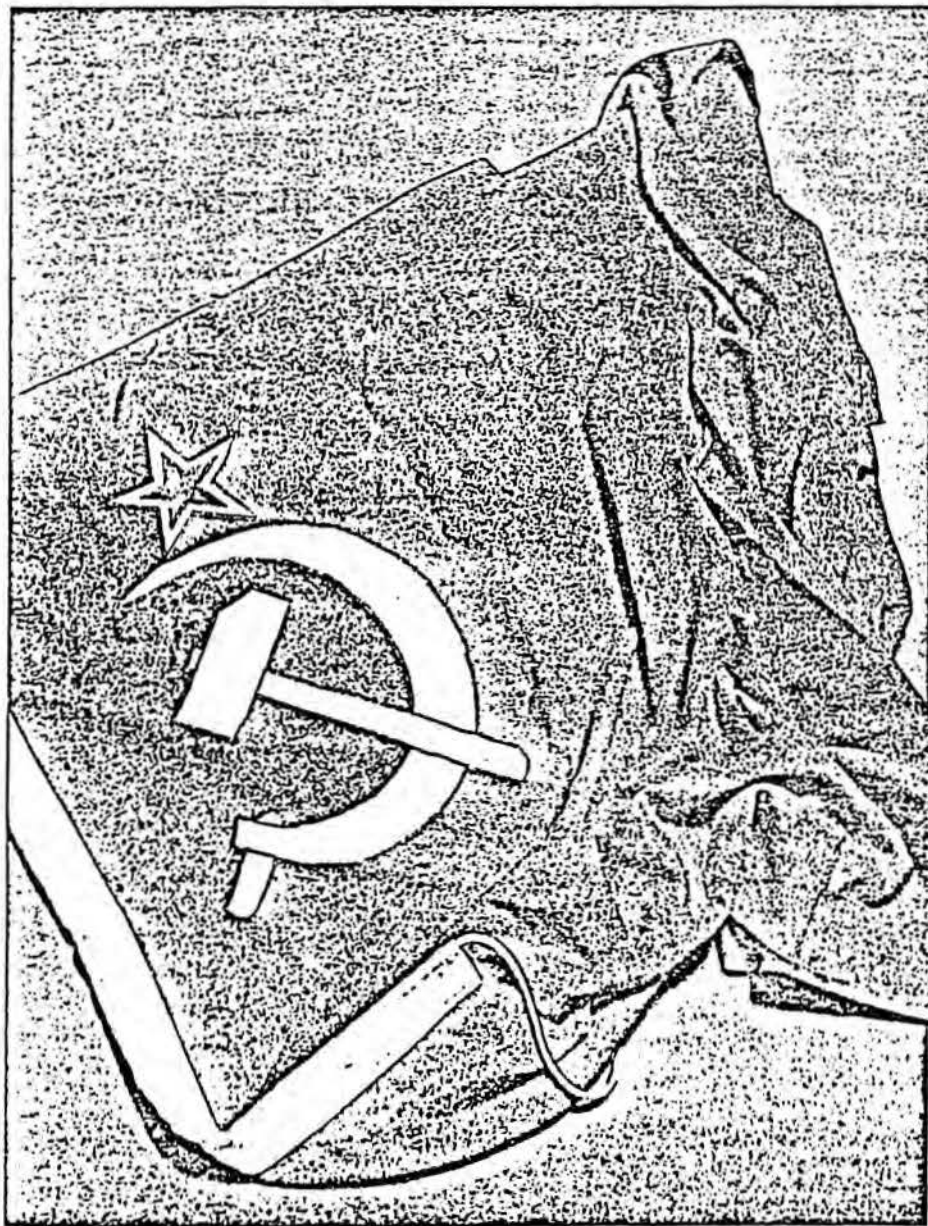
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SOVIET GOODWILL HELPS OPEN UP AIR ROUTES

After last November's Geneva summit, the USA and Soviet Union agreed to resume flights between their countries. Meanwhile, Moscow is allowing more trans-Siberian non-stop overflights between Europe and the Orient. Trevor French examines the consequences of recent major diplomatic agreements.



Civil air treaty negotiators, who have for years numbered the Soviets among their toughest opponents, must be eyeing the two most recent agreements with the USSR with some surprise. Air services agreements with the Soviet Union have traditionally been heavily restrictive for the non-Communist partners. The commercial bias in favour of Aeroflot has caused raised eyebrows even among negotiators long used to the Soviets' tough bargaining positions, often prompted by Aeroflot's established role as a visible presence around the world and a generator of much-needed foreign currency. But it seems, temporarily at least, that Soviet attitudes towards air service partners have softened significantly.

The agreements which allow Pan Am and Aeroflot to resume services between the United States and the Soviet Union, and which allow direct non-stop flights between Europe and Japan through Soviet airspace, appear to have conceded real commercial advantages to Pan Am and Japan Air Lines without asking too heavy a price in return. Observers who cited the general thaw in East-West relations, which culminated in the Geneva super-power summit late last year, do not believe it was alone responsible for the apparent generosity of the Soviet air authorities. Indeed some have spoken of a new Soviet willingness to allow Aeroflot to operate with less protection, allied to a more realistic assessment of the security dangers posed by foreign aircraft using Soviet airspace, as contributing factors.

The air services accord which opened the way for the resumption of services between the US and USSR was seen by some as the only concrete result of the Geneva summit. In fact negotiations had been under way

since early 1985. Pan Am had suspended its direct Boeing 707 operations to the Soviet Union in 1978 for economic and commercial reasons. Crippling Soviet restrictions meant Aeroflot dominated the market and it became unprofitable for Pan Am. Aeroflot in turn had its US rights suspended in 1981 after the Soviet occupation of Afghanistan.

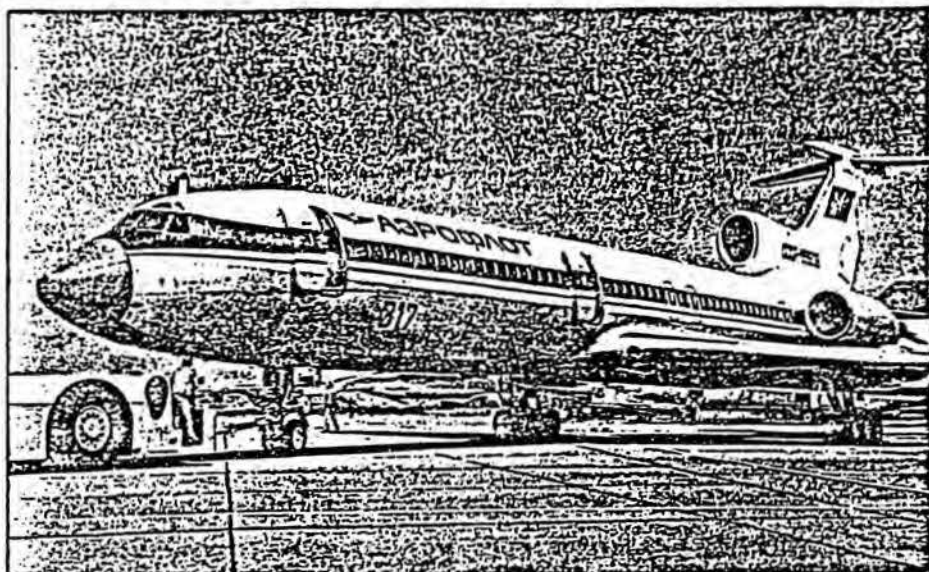
The new agreement means that when services resume on April 28 this year, Pan Am and Aeroflot regain basically the same rights they had before. Pan Am will, however, now be operating a change-of-gauge service by Boeing 747 to Frankfurt and then Boeing 727 on to Moscow four times weekly, with two of the flights continuing to Leningrad. Aeroflot has four weekly flights to New York, with two continuing to Washington.

The crucial difference is that the agreement now includes a revenue balancing mechanism which leaves Pan Am in a much stronger position commercially than before. Each carrier is allowed to retain full revenues for the first 12,000 revenue passengers it carries in either direction. Only after that number will revenue units, fixed at US\$175 per passenger, be shared with the other carrier.

Pan Am's senior vice-president of government affairs, Richard Mathias, says this mechanism, plus the change-of-gauge service, means the airline now expects the routes to be profitable. Before 1978 Aeroflot carried far more traffic than Pan Am, principally because Pan Am was prevented from selling tickets in the USSR and from "doing business on a regular basis," says Mathias. Pan Am still cannot sell tickets in the Soviet Union, although Aeroflot can now sell tickets in the US directly without having to sell through Pan Am. Hence the balancing mechanism.

"It's a sort of insurance policy that will allow us to operate with sufficient freedom so we can carry at least half of the market. Either airline will suffer significant financial losses if it is unable to capture a significant share of the traffic," says Mathias. "The real importance is to provide an incentive to Aeroflot and the Soviet Government to allow Pan Am to carry roughly a half share of total traffic. It's something both sides are comfortable with."

The more liberal commercial conditions of the US-USSR services are not the only benefit extracted from the Soviets. Pan Am also gained the right to overfly Soviet territory on seven scheduled services a week between Frankfurt and the Indian sub-continent. Mathias says Pan Am has



Aeroflot aircraft will return to American skies when scheduled services resume in April.

not yet completed its plans for these routes, but agrees that substantial fuel savings not far short of US\$500,000 a year will be made by abandoning the present much more westerly routings. The overflight rights were part of the overall package, and there was no item-by-item trade off in the negotiations.

Both Mathias and chief spokesman of the US Department of Transportation team at the negotiations, Ed Oppler, noted what they called a "greater receptiveness" on the part of their Soviet counterparts. Oppler is not happy that the US was forced into having the balancing mechanism, and adds that it would not sign such an agreement with any other country. But he agrees that it is a significant concession by the Soviets and Pan Am will benefit substantially from it.

"I think they were willing to take more of a commercial risk in the balancing mechanism because they knew our carrier was guaranteed a certain share. It was very important for them to get this service going again for a combination of reasons - economic, gaining hard currency, and showing the flag," says Oppler.

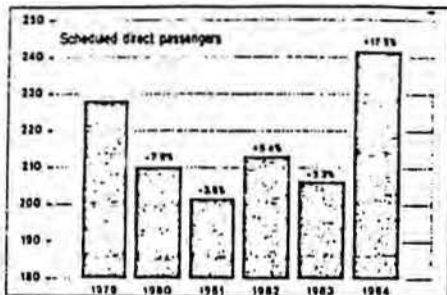
Negotiations between Japan and the Soviets for Japan Air Lines' rights for four non-stop Europe to Tokyo overflights a week took much longer than the US-USSR pact. The agreement was announced in February last year after discussions opened in 1981. But again in the end the agreement reached seems remarkably uncomplicated. JAL's regional manager UK and Eire, Takemi Tamaki, describes it as a simple exchange of traffic rights. "There were no politics involved, no trickery." JAL is starting with two direct trans-Siberia non-stop return flights a week from London and Paris from April 1. The flights will replace services which at present operate from the same destinations via a stop-over at Moscow. In return Tamaki believes Aeroflot gained cargo frequency between Moscow and Tokyo.

While JAL's traffic rights between Europe and Japan remain unchanged in terms of capacity and frequency, the Russian concession gives the airline a sharp commercial edge in a market it already dominates. Fares remain unchanged, but the substantially reduced flight durations compared with the routes via Moscow and Anchorage (see table), plus more attractive arrival and departure times, will help JAL corner the business travel market at which the non-stop services are principally aimed, says Tamaki. JAL is expecting load factors on the non-stop flights to be three or four points higher than those on its existing services, which average between 70 and 75 per cent. Substantial cost benefits include a fuel saving of some US\$450,000 a year at the present frequency compared with a Moscow stop, and savings in landing and ground handling fees at Moscow.

Why did the Soviets agree to this concession if they stood to lose foreign currency earned through JAL stopovers at Moscow? Tamaki believes the answer is to be found in Aeroflot's increased penetration and market share on routes from Moscow to Europe and Tokyo. The negotiations which allowed the first Europe-Moscow-Tokyo services in the early 1970s also spawned a pooling formula which meant that money continuously flowed from Western airlines to Aeroflot, then a vastly unpopular airline. That pooling formula still exists, says Tamaki, but under its terms the flow of currency is no longer one-way traffic. The Soviets, it seems, are satisfied with Aeroflot's performance on the route and did not view non-stop overflight rights as a lever to extract large concessions from Japan. And Japan, of course, was in the powerful position of being the single destination not only of Aeroflot's Tokyo flights, but also those from many European countries.

Full development of the non-stop trans-Siberia route is being held back at the

USSR



The strong traffic growth between London and Tokyo in 1984 is likely to have been repeated in 1985. Passengers up to May 1985 were 16.9 per cent up. Source: British Caledonian.

moment by Japan's bilateral partner, Britain, claims JAL. The British at present are only allowing JAL a single non-stop flight a week to London. JAL wants to operate all four services for which the Soviets have granted non-stop overflight rights from the British capital, but is being forced for the moment to fly just two, one of them from Paris.

At press time Britain's future on the non-stop route to Tokyo was awaiting the final outcome of a conflict between British Airways and British Caledonian. BCal has been granted three non-stop services a week from London-Gatwick, two continuing to the South Korean capital of Seoul. BA serves Tokyo six times a week via Anchorage, having added the sixth service in mid-1985 after BCal's application, and has indicated it wants to start a seventh service and to serve Seoul. But the UK-Japan bilateral allows only eight flights a week. BCal failed to have BA restricted to five, all via an intermediate point, and also failed to have London-Seoul deleted from BA's licence. If both airlines are to be satisfied Britain will have to negotiate with Japan for at least two more London-Tokyo flights a week, and may have to allow other Japanese airlines to serve London in return.

BCal's planning and corporate affairs director, Peter Smith, sees the issue as the first real test of the British Government's resolve to introduce more competition between the two British carriers. "We would expect BA to operate non-stop services, but if there are only a limited number available, BCal would expect to have them all."

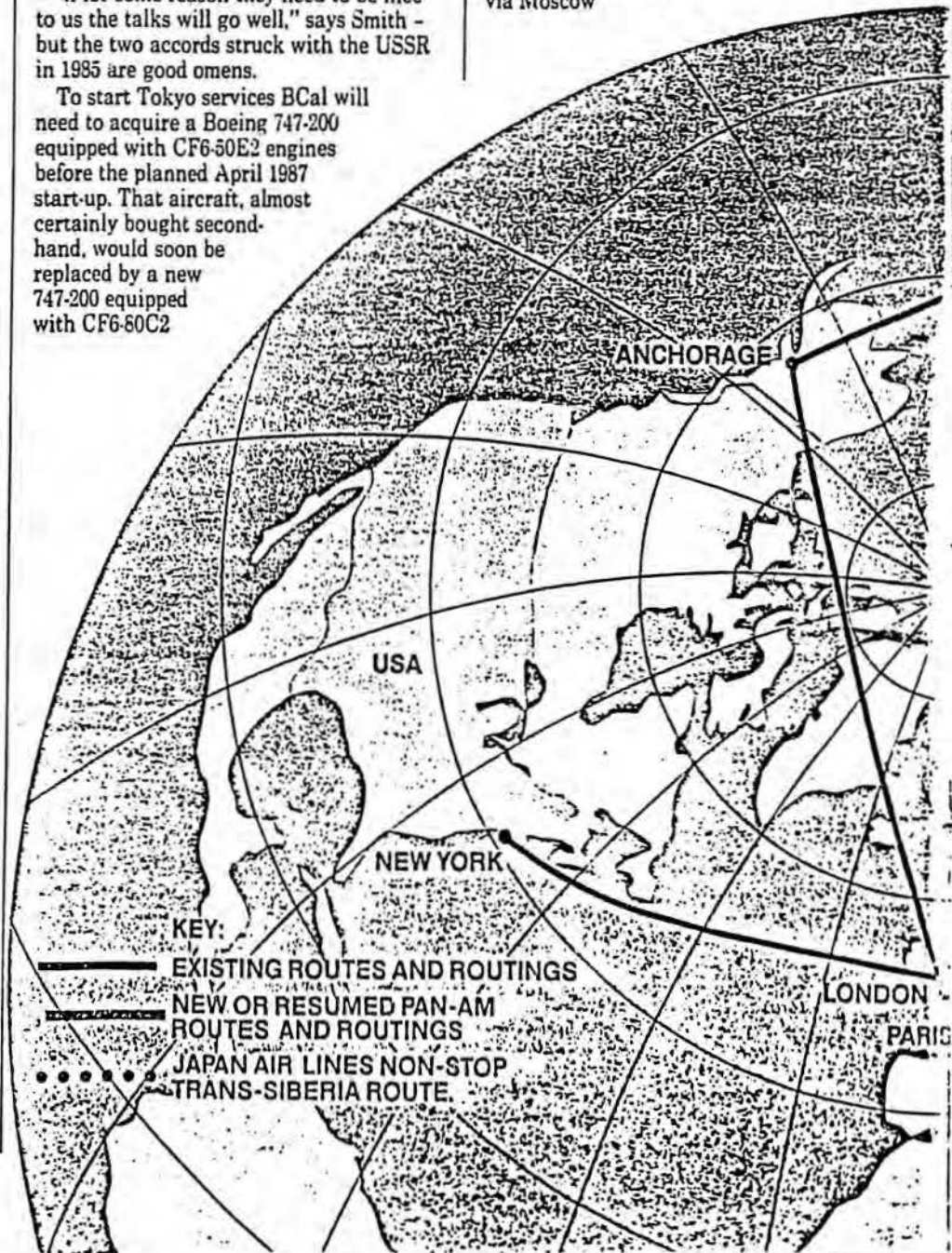
Right: The two recent agreements with the Soviets show a new willingness to grant commercial benefits to western airlines through their use of Soviet airspace.

Smith believes there are no insurmountable issues in the way of finalising overflight rights for Britain with the Soviets. "The benefits of securing this for the United Kingdom are very substantial." Britain's position in negotiating with the Japanese is complicated now BCal has approval for the routes, as two British carriers are now involved in the bilateral. But as Aeroflot already overflies Britain between 12 and 16 times a week on flights to Cuba, and needs the rights it presently holds to and through Heathrow, Smith believes Britain is in a powerful bargaining position. As is usual with the Soviets, timing could be important - "if for some reason they need to be nice to us the talks will go well," says Smith - but the two accords struck with the USSR in 1985 are good omens.

To start Tokyo services BCal will need to acquire a Boeing 747-200 equipped with CF6-50E2 engines before the planned April 1987 start-up. That aircraft, almost certainly bought second-hand, would soon be replaced by a new 747-200 equipped with CF6-80C2

engines, says Smith. But in the meantime, all such plans await the outcome of the negotiations with the Japanese, the Soviets, and the Koreans. The Soviets may not be happy about the flights going on to Seoul.

It remains to be seen whether the start of JAL's non-stop flights will generate a queue of European airlines knocking at the Soviets' door asking for similar rights. Air France is expected to begin non-stop services from Paris to Tokyo soon after JAL. But Lufthansa, which has had none too good relations with the Soviet Union and Aeroflot in the past, is biding its time. The West German airline suspended Tokyo flights via Moscow



in April 1983 after Soviet demands in return for permission for Lufthansa to change from Boeing 707s to widebody aircraft proved too expensive. Soviet demands for beyond rights from Frankfurt, and problems with ticketing in Moscow, were also believed to be behind Lufthansa's withdrawal. Lufthansa, and indeed JAL itself, believes JAL's start-up frequencies are too few to have a significant impact on overall market shares between Europe and Tokyo. Until a larger number of non-stop flights are operating it seems to be a case of "wait and see".

Both 1985 agreements with the Soviets were conditional on the implementation of

Route	Time	Distance
London/Heathrow - Tokyo/Narita		
Non stop	11 hr 35 min	10,270 km
via Moscow	14 hr 10 min	10,570 km (1 hr 20 min stopover)
Polar route	17 hr 15 min	12,906 km (1 hr 15 min stopover)
Tokyo/Narita - London/Heathrow		
Non stop	12 hr 20 min	10,270 km
via Moscow	14 hr 55 min	10,570 km (1 hr 10 min stopover)
Polar route	16 hr 20 min	12,906 km (1 hr 15 min stopover)
New York/JFK - Tokyo/Narita		
Non stop	14 hr	11,293 km
Tokyo/Narita - New York/JFK		
Non stop	12 hr 20 min	11,293 km

safety measures for aircraft on North Pacific air routes, worked out between US, Soviet and Japanese officials in Washington in November last year. That agreement will have gone a long way towards reassuring those who remember the shooting down by Russian fighters of the Korean Air Lines Boeing 747 on August 31, 1983, after it strayed into sensitive Soviet airspace near the island of Sakhalin. Despite that shattering demonstration of what was seen as trigger-happy Soviet paranoia about its airspace, JAL sees no real marketing disadvantage in the fact that its non-stop flights spend so much time in Soviet airspace. Fear of overflying the Soviet Union has never harmed JAL services which fly the same route to the Moscow stop and will not harm

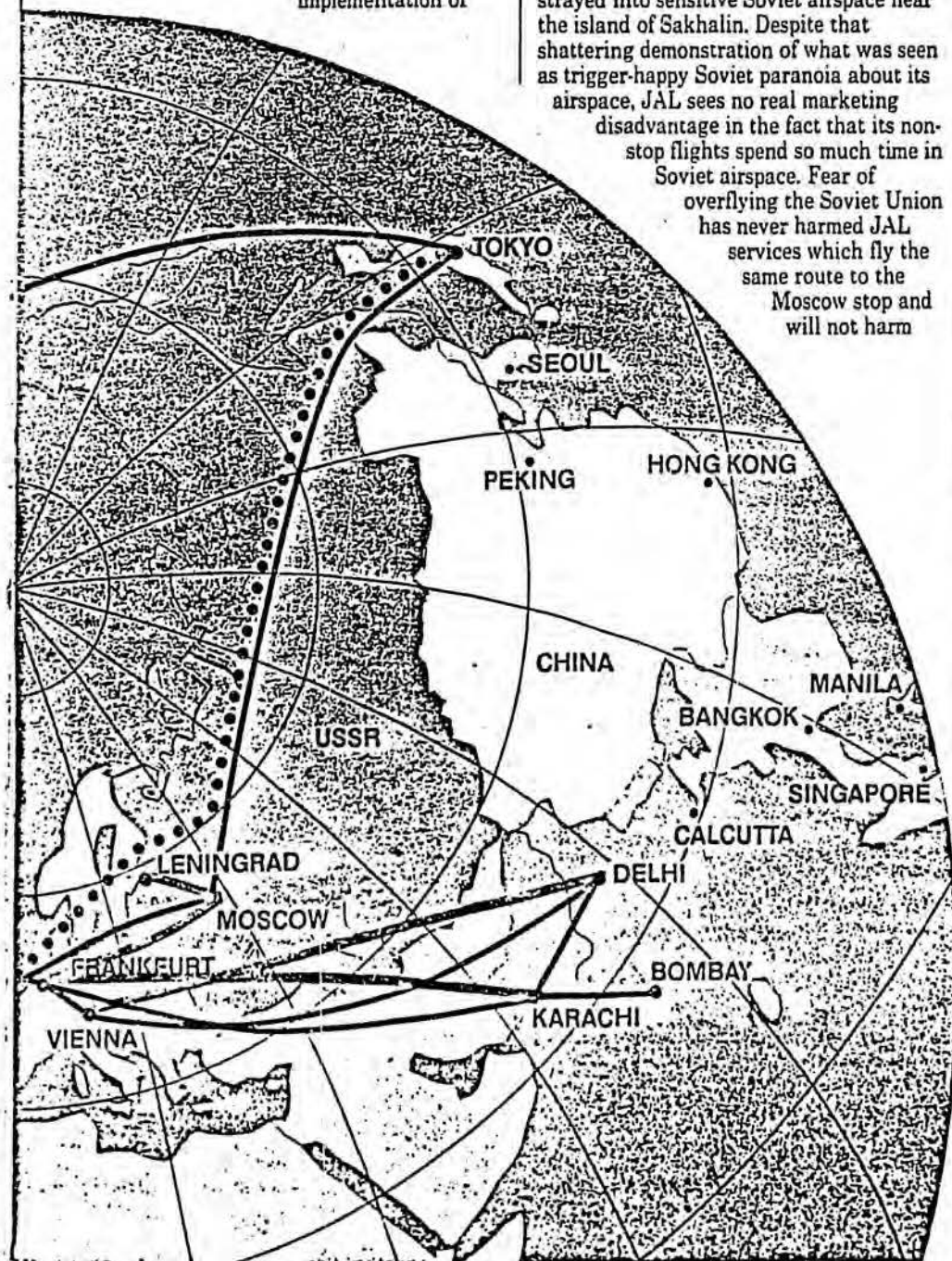
the non-stop service either, says Tamaki.

Some passengers are less happy, but for different reasons. One carrier with routes between Europe and South-East Asia reported that some companies, whose representatives frequently carry "sensitive documents", would only book with airlines whose routes avoided Russian airspace.

BCal's Smith believes there remains one further major prize to be won involving Soviet airspace - a direct route from Europe over the Soviet Union and China to South-East Asia. Cathay Pacific calculates such a route would cut almost two hours off its present non-stop London-Hongkong flight duration of 12 hours, but is unaware of any British initiative to secure such rights. Singapore Airlines, for which the time benefits would be much less, considers the political relationship between the Soviet Union and China makes the route too remote a possibility to be worth considering. "If we thought there was a prospect of being able to operate our Boeing 747-300s to London non-stop on a great circle route we wouldn't be considering the expense of buying a 400 series," says a SLA spokesman.

Smith disagrees. "It may not be possible at the moment, but at some stage I do see the route being established." Britain's withdrawal from Hongkong in 1997 will mean powerful commercial and political pressures from China, he says. "How long can Hongkong afford to be at a disadvantage to, say, Singapore and Tokyo? They are going to want that route to get the best air services between Hongkong and Europe, and there are already signs of a thaw between China and Russia."

In the meantime the new trans-Siberian services and Pan Am's overflight rights to India remain the latest routes to chip away at the vast blank space in the world's air routes that is the Soviet Union. That country's position as an enormous barrier between Europe and the Orient gives it a powerful bargaining position in air treaty negotiations. But the two new agreements do show that the barrier is not impregnable. And the apparent new-found willingness on the part of the Soviets to grant more overflight rights holds out hope that other prizes may be won.





STATE OF ALASKA
INTERNATIONAL AIRPORTS
(An Enterprise Fund
of the State of Alaska)
FINANCIAL STATEMENTS
JUNE 30, 1986 AND 1985

STATE OF ALASKA INTERNATIONAL AIRPORTS
(An Enterprise Fund of the State of Alaska)
STATEMENT OF INCOME
YEAR ENDED JUNE 30, 1986

	<u>Anchorage</u>	<u>Fairbanks</u>	<u>Total</u>
Operating Revenues:			
Landing fees	\$ 6,456,781	\$ 487,510	\$ 6,944,291
Parking fees	348,139	169,340	517,479
Gas and oil fees	9,699,120	562,193	10,261,313
Vehicle parking fees	1,866,960	168,350	2,035,310
Terminal building rental	5,344,614	1,263,509	6,608,123
Aircraft docking fees	697,800	7,058	704,858
Federal inspection fees	169,627		169,627
Concession fees	18,985,697	264,973	19,250,670
Land rental	734,249	420,912	1,155,161
Electric energy fees	37,408	36,416	73,824
Flight service station rental		31,140	31,140
Other airport charges	45,479	49,711	95,190
Lease of state property		12,000	12,000
Interest	12,928	3,095	16,023
Other	11,567	14,234	25,801
Total operating revenues	<u>44,410,369</u>	<u>3,490,441</u>	<u>47,900,810</u>
Operating Expenses:			
Security	3,626,172	2,612,524	6,238,696
Field maintenance	2,604,442	1,190,360	3,794,802
Administrative	4,916,287	1,588,645	6,504,932
Building and equipment maintenance	4,442,026	1,203,009	5,645,035
Custodial	2,729,622	591,456	3,321,078
Total operating expenses	<u>18,318,549</u>	<u>7,185,994</u>	<u>25,504,543</u>
Operating income (loss) before depreciation	26,091,820	(3,695,553)	22,396,267
Depreciation expense	6,270,761	2,883,512	9,154,273
Income (loss) from operations	<u>19,821,059</u>	<u>(6,579,065)</u>	<u>13,241,994</u>
Non-Operating Income (Expense):			
Interest income	3,438,698	270,793	3,709,491
Interest expense	(2,625,603)	(206,763)	(2,832,366)
	<u>813,095</u>	<u>64,030</u>	<u>877,125</u>
Net income (loss)	<u>\$20,634,154</u>	<u>\$(6,515,035)</u>	<u>\$14,119,119</u>

BASIS OF ALLOCATION

All items above are charged directly to the individual airports except for interest income, interest expense, and administrative expenses as discussed in Note 5. These items are allocated on the basis of gross revenues generated by each airport.

Alaska State Legislature



SENATOR
ARLISS STURGULEWSKI

Chairman, Senate Community and Regional Affairs Committee
Vice-Chairman, Senate Judiciary Committee
Member, Senate Resources Committee

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

While in Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

MAR 23 1987

March 20, 1987

MEMORANDUM

TO: Representative Bette Cato, Chairman
House Transportation Committee

FROM: Senator Arliss Sturgulewski (A)
Senate District F

RE: SCR 5 "Relating to promotion and marketing of the state-operated international airports"

SCR 5 "Relating to promotion and marketing of the state-operated international airports" has been referred to your committee. Timing is very critical as it is hoped that the administration will be able to incorporate this request into the FY 88 budget. The lack of a marketing plan for the state's international airports could have a very serious negative impact on our state and I hope that you can schedule an early hearing.

My concern in sponsoring SCR 5 is that there is no marketing plan for the state-operated international airports at Anchorage and Fairbanks. This resolution merely asks the administration to initiate a marketing plan. It does not try to push any preconceived structure or budget.

There are serious concerns about the future financial health of the international airports. New technology, particularly the new Boeing wide-body 747-400's can fly from Europe to the Orient without refueling in Anchorage. Growing competition from Moscow as well as Pacific Northwest cities could have a negative impact on passenger and freight through Anchorage.

A 1985 study by the Alaska Department of Transportation and Public Facilities showed that the Anchorage International Airport generated more than \$1 billion for the Anchorage economy. This included more than 13,000 jobs with annual earnings of \$375 million. This, of course, is a major contributor to the state's economy that we cannot afford to lose.

My staff is available to provide backup material. Again, thank you for your consideration.