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SENATE RULES
STANDING COMMITTEE
March 30, 1982
9:00 a.m.

Members Present: Senator Tim Kelly, Chairman
Senator Bob Ziegler
Senator Frank Ferguson
Senator Ed Dankworth
Senator Jay Kerttula

COMMITTEE CALENDAR

SB 824 "An Act relating to sale and delivery of in-bond merchandise at international airports."

WITNESS REGISTER

Cliff Groh, Attorney
LIZ
711 "H" Street
Anchorage, Alaska 99501
Position Statement: Testified on behalf of LIZ Duty-Free.

Bob Ward, Commissioner
Department of Transportation
and Public Facilities
Sommers Building
226 Seward Street
Pouch Z
Juneau, Alaska 99811
465-3900
Position Statement: Emphasized the support of protecting 25% of the revenues brought into International Airport revenue fund.

Chuck Becker
LIZ
833 West 19th
Anchorage, Alaska 99503
Position Statement: Emphasized free enterprise.

James L. Thompson
121 West Fireweed, Suite 207
Anchorage, Alaska 99503
274-7630
Position Statement: Expressed concern of SB 824.

Marty Farrell, Attorney
Duty Free
Anchorage, Alaska 99501
Position Statement: Represented Duty-Free.

Joe Lyons, President
U.S. Division of Duty-Free Shoppers
Duty-Free
Anchorage, Alaska 99501
Position Statement: Gave business background and the economics
of Duty-Free.

Margo Armistead
LIZ, Limited
Anchorage, Alaska 99501
Position Statement: Explained destination points of sale of
goods as not being directly competitive.

Robert F. Gillin
Inter-money Marts
P.O. Box 6669
Anchorage, Alaska 99502
Position Statement: Emphasized preventing manipulation of
foreign currency exchange prices.

PREVIOUS ACTION

SB 824 Please refer to Senate Finance on March 19,
1982 when the bill passed from Finance to
Rules.

ACTION NARRATIVE

Tape #0001
Recording
Number 0001

Senator Kelly: The Rules Committee meeting
will come to order, let the record show that
there is a quorum present and Senators
Ferguson, Ziegler and Kelly are here. We
will start off the testimony on SB 824 with
Mr. Groh.

Number 0035

Cliff Groh: Hi, my name is Clifford Groh, I
am the Attorney for LIZ Duty-Free. LIZ
Duty-Free opposes the enactment of SB 824
for a number of reasons. First of all the
Governor's letter says that there will be
competitive bidding on an exclusive

contract. SB 824 does not provide for competitive bidding, its a little like the old adage I can trust you my friend, but would you please shuffle the cards. It really wouldn't be very difficult to add a competitive bidding requirement. And I suggest, respectively suggest, that that be added. Number 2, the bill obviously creates a monopoly. Common sense dictates that competition would increase the revenues of the state. Amongst other laws of course, the Sherman Anti-Trust Act prohibits monopolies, and let me very briefly discuss what has occurred here. The State of Alaska a number of years ago entered into an exclusive contract for the operation of in-bond warehouses and duty-free shops in Anchorage. In my opinion that exclusive contract is in violation of the law. The contract has been extended for various periods of time, LIZ duty-free contrary to the assertions of many, believes that the delivery of goods to the airport is not in violation of that contract, LIZ Duty-Free has not been stopped from making those deliveries. Very briefly, the history of LIZ, it has eight shops in Paris and operates in Beverly Hills. It plans to open three stores in Anchorage. Obviously they are different points of sale, than presently occurred to duty-free shoppers facility in Anchorage. LIZ has spent approximately \$250 Thousand dollars getting established in Anchorage. It has created new jobs there, contrary to some assertions it is not an operation being run out of a back door of a garage someplace. It has received all of the necessary permits from the federal government and from the United States Customs Bureau. It is licensed to do business in Alaska, it employees a substantial amount of people. This bill if it is passed will put the company out of business. Particularly because it provides for exclusive sale and delivery on "page 2, section 2". I respectfully suggest to you, and I have sat on the other side of the table and I know what it means when somebody says that the State may be liable in an inverse condemnation situation. But LIZ Duty-Free obtained its licences from the federal government in December, it notified the State of Alaska that it was going to operate, and notified the State the way in

which it intended to operate. It has been in business since then, and now by virtue of SB 824 it is going to be put out of business. I think the State will be legislating, if it passes SB 824 in its present form, a company out of business. I suggest to you that if that occurs, that company has a claim against the State, allowing to have it get started and then being shut down by virtue of legislation. Let me urge you gentlemen not to be hasty. First of all to my knowledge the legislature doesn't even have copies of the existing exclusive contract. No member of the legislature nor the staff has studied the records to determine the facts surrounding the existence of the present exclusive contract. At present the exclusive contract provides for payments to the State of a minimal rental or a thirteen and three quarters percent (13 3/4%) whichever is greater. The payments in Hawaii are twenty percent (20%), that's six and a quarter percent (6 1/4%) difference on potential sales approximately 30 to 35 Million dollars, that amounts to a little bit of money. I don't think that passage of the bill without studying the existing contract and without understanding everything that has occurred is in the best interest of the State. The existing exclusive contract provides for quarterly payments to the State, every single contract that I have been able to find, and I'm sure that somebody else might find one that isn't the case, that every other contract provides for monthly payments. The other reason I urge you not to be hasty is that Hawaii spent \$50 Thousand Dollars on a Coopers and Lybrand study to determine whether monopoly or what method is the best method for the leasing of space at the international airports. That study indicates that of the various options that may be available to the State, a monopoly is the poorest choice. Very specifically I would suggest certain amendments be prepared for the bill. And I refer to the bill in particular to "page 2, line 21". It presently says the department will allow the sale, shall allow the sale and delivery. I think in order to accommodate off-site operators you ought to break that down, and refer to "department which shall allow the sale, the delivery";

to "the sale or delivery of in-bond merchandise of the international airport, only by contracts"; strike "exclusive" and insert after "competitive bidding", "in a manner provided by law". Obviously section (b) should not be included at all. To the extent that LIZ Duty-Free is presently operating, it is only delivering at the airport. Its sales are made in other places, and it will continue to make sales at other places and I represented at previous committees for purposes of delivery, it is willing to pay a fee to the State. Paragraph (c) should establish certain standards, "page 2, line 28" suggesting that the contracts taking into effect the revenue requirements of the State, that they maximize revenue. I might also respectfully suggest that there be added a maximum time period for the contracts. Again, I trust everybody but lets shuffle the cards, lets put a term in here during which the contracts will remain in effect. As to the remainder of the bill, I think the word "exclusive" should be stricken in each instance. I thank you for the opportunity to appear before you and I will answer any questions.

- Number 0230 Senator Kelly: Thank you Mr. Groh, is there any questions from the members of the Committee for Mr. Groh.
- Number 0235 Senator Ziegler: Not at this time, but I assume he will be available for questions.
- Number 0240 Senator Kelly: Yes sir.
- Number 0241 Senator Kelly: Next to testify before the Committee will be Mr. Chuck Becker, would you identify yourself for the record please.
- Number 0375 Chuck Becker: My name is Chuck Becker. I'm here representing LIZ Duty-Free Limited of Anchorage. I would like to briefly highlight my background because it is germane to the message of this testimony. From 1972 to 1979 I was the Principal of a firm called "Man in Washington" it is an affiliate of the "National League of Cities" and the "United States Conference of Mayors". For another seven years I was Washington D.C. Representative with the cities of Phoenix, Arizona; Albuquerque, New

Mexico; and Anchorage, Alaska. Based on that experience coupled with my experience in the Industrial Development Division of Teledine Packard Bell, former Mayor of Anchorage George Sullivan brought me to Anchorage to run his new office of Economic Development in January of 1980. I left my position as Economic Development Director of Anchorage two months ago and established a new Alaska corporation called "Man in Alaska". The firm specializes in providing business services to foreign and domestic corporations seeking to relocate or to establish operations in Alaska. I am also the Chairman of the Alaska Economic Development Forum, Business and Development Marketing Committee, and Co-Chairman of the Anchorage Chamber of Commerce Industrial Attraction Committee. A product of my rather extensive experience in industrial and economic development is a firm belief and commitment to the free enterprise system that we are blessed within these United States. That system and only that system allows for upward social and economic mobility for each and every man, woman, and child in this nation of ours. The free enterprise system holds a promise of better tomorrow for all of us and to our children. It's antithesis, socialism, or worse communism, where the State controls enterprise, not only degrades the human spirit but propels those nations which adopt that system into an economic marass due to the under productiveness of their unmotivated work force. State control of the elements of commerce and production, relegates those countries which have adopted such a system to an inferior competitive position in world markets and the citizens of those countries to sub-standard life styles. Today you are considering a bill which if enacted would be an assault by the government of Alaska on the free enterprise system. The wool has been pulled over too many sets of eyes to have allowed SB 824 to progress this far. The only justification for the proposed of this bill is the potential loss of revenues to the State in the existing contracts on duty-free sales is not allowed to continue. I say balderdash. The fundamental principle of the free enterprise system, the system which over time has made our country a great nation,

competition, I'm sorry, is a fundamental principle of the free enterprise system. In Hawaii where such competition was allowed in duty free sales, two vendors bid up the rents to payments of 20% on gross sales. Had Alaska had the same good fortune brought by competition last year an additional minimum \$2.5 Million dollars would have accrued to the State. Two authorized vendors of duty free merchandise in Alaska would actually increase revenues derived by the State. By first causing the percentage of gross sales to more accurately reflect true market rates. Secondly, points of sale at the International Airport terminals would be increased exposing the consumer to more opportunities to buy. Thirdly, LIZ Duty-Free has already negotiated three additional show rooms in downtown Anchorage and plans to expand these operations and other major tourist cities throughout the State to further increase exposure opportunities. Fourth, the jobs created by this new operation will number 50 on May 1st, 1982. And, if allowed to compete at the new International Airport terminal, will exceed 150 before the end of the year, all of which will go to Alaskans. Finally, the sales motivation and efforts will increase if the present monopoly is eliminated. The fact readily attested to by successful sales persons in any competitive line. The bill if enacted would create a monopoly and the sales of duty-free merchandise at Alaska's International Airports. Worse, if it can get worse, the bill would drive LIZ Duty-Free out of business in Alaska effectively eliminating competition for the State's exclusive contract. The bill seeks to institutionalize through legislation the much criticized practices attended to sole source contracts. To conclude, I would like to briefly quote from an article which appeared in Hawaii's Star Bulletin last April on a subject identical to the one before you today. "Legislative bills that would squeeze out competition in the vastly lucrative Duty-Free shop business apparently will be embalmed and quietly laid to rest at least for this year. For the past two weeks a Representative of one of those Duty-Free operations has orchestrated a quite drama in the Legislature hoping to push through a new law that would grant exclusive rights in the

Duty-Free shop business, and squeeze out a third firm which is currently seeking to enter the market. The Duty-Free shops are a fantastically profitable enterprise with current sales volumes of \$170 Million dollars a year. An amount larger than the volume of business of any other retailer in Hawaii. Over the next seven and half years Duty-Free shops are expected to generate a total of 1.9 Billion dollars in sales and pay the State Government up to \$400 Million dollars in fees for the privilege. We would respectfully ask that this body take action in the same manner as did the Hawaiian Legislature and embalm and quite lay to rest SB 824 or adopt those amendments as proposed by Mr. Groh. Thank you for the opportunity to appear before you today, and I am prepared to answer any questions.

- Number 0450 Senator Kelly: Thankyou Mr. Becker. Yes, Senator Ziegler.
- Number 0469 Senator Ziegler: Mr. Becker I don't think we have had the pleasure of meeting, but your testimony is very interesting. What happens if the bill is embalmed, as you urge.
- Number 0470 Mr. Becker: We would hope that it would remain in that fashion, we would hope ultimately that LIZ Duty-Free would be allowed to open up operations at the new Anchorage International Airport terminal.
- Number 0475 Senator Ziegler: By so doing, you say that you and the other organizations will both be allowed to operate, you will increase or enhance state revenues ultimately.
- Number 0479 Mr. Becker: Yes sir.
- Number 0481 Senator Ziegler: That's your basic argument.
- Number 0483 Mr. Becker: Yes, I firmly believe that.
- Number 0485 Senator Kelly: Senator Dankworth.
- Number 0487 Senator Dankworth: If the bid, and I understand that these bids come up, I don't know when Duty-Free's present bid expires I believe that it is in 1984.

Number 0495

Mr. Becker: I am not sure.

Number 0497

Senator Dankworth: When it was last up would everybody really have an opportunity to bid on this at that time, or does anybody have anything exclusive beyond that you see Chuck, beyond the contract they bid on. As I understand it Duty-Free went out and won a bid on a competitive bid and they have it. And that opportunity was available both to LIZ if they wanted to bid, Marriott, or anyone else who wants to get into that business and it will also be available to them in 1984 if they want to go out and bid on it.

Number 0510

Mr. Becker: It is my understanding that enactment of the bill would drive LIZ Duty-Free out of the business in the State of Alaska pretty effectively eliminating future competition. The bid if the bill would allow for competitive bid, is my understanding, is earmarked for those firms having a minimum of three years experience in Duty-Free operations in the United States. It pretty well locks in the present holder of the contract.

Number 0530

Senator Dankworth: My question Chuck is this, its true that certain things at the International Airport go out to bid. That's nothing new, that's been going on all over the world and these things did go out, I haven't listened to Commissioner Ward, but I assume this went out as a competitive bid and Duty-Free won. Between then and the next time they bid it seems like that there's the opportunities are still going to be available for LIZ to bid next year when this comes open to get the opportunity to do that. And I don't know that I would go as far as you have in saying that we would just wipe out a company because they weren't available to bid last time and they will be available this year, but they would like to get in a year ahead of time or a couple of years ahead of time. You got to convince me. There are a lot of airlines and everyone else who go out to bid on using airports.

Number 0540

Mr. Becker: Senator if the opportunity to bid competitively is presented, LIZ would

certainly be prepared to bid competitively.

- Number 0550 Senator Dankworth: It will occur but I don't know what the dates are, wouldn't that be the time for LIZ to try to get into this business.
- Number 0560 Mr. Becker: Yes I would certainly think so. However, in the mean time the bill if enacted would put a halt to the operations of LIZ in Alaska.
- Number 0565 Senator Kelly: Is there any further questions of Mr. Becker. Senator Ferguson.
- Number 0570 Senator Ferguson: You mentioned a newspaper article some time back could you give me the date of that.
- Number 0575 Mr. Becker: April 19, 1981.
- Number 0576 Senator Ferguson: Do you have a copy of March 28, 1982.
- Number 0578 Mr. Becker: No, I do not.
- Number 0580 Senator Ferguson: It says "Duty-Free monopoly bill clears to House."
- Number 0582 Mr. Becker: Things have changed.
- Number 0583 Senator Kelly: Does anyone really know the status of this bill in the Hawaii legislature. Mr. Farrell.
- Number 0584 Mr. Farrell: The newspaper clipping that Senator Ferguson had from two days ago states that the bill has gone through the Hawaii State Senate. A bill identical or close to the one in front of you, has now gone through a joint hearing between the House Transportation Committee and the House Consumer Protection Committee and is likely to be on the floor of the House to press the buttons before the Hawaiian Legislature.
- Number 0589 Senator Kelly: Thank you. Is there any other questions for Mr. Becker. Next to testify is Mr. Thompson.
- Number 0590 Mr. Thompson: My name is Jim Thompson, as a preface to my testimony today that I would like to point out that I have no connection with the parties involved. I don't even know them. I am currently leaving state

employment to start a private company which firm has no connection at all with the Duty-Free business. I am here as a citizen and a constituent who believes in the free flow of commerce and am very concerned about the trend in the courts and legislature today to displace a free enterprise system. Where to pen the words to the SB 824 "to displace unfettered business freedom". I am concerned about actions such as proposed in SB 824 that could result in feeding the expansion of tourism spending and supporting Alaska's role as a free trade crossroads in the world. This bill represents a great threat as it sets up one more State controlled monopoly, which could lead to the lessening of state revenues and basically do the opposite of creating new jobs in the Anchorage and Fairbanks areas. Now for specifics: Sec. 1. of this bill sets out the reasons for the proposed legislation, I will comment on each point in the order posed and ask that you follow along in the bill. Subsection (a), I don't think that anyone can quarrel with this general statement. Independent concessionaires should bear some of the costs of running the Anchorage and Fairbanks airports. Subsection (b), we all agree tourism should be encouraged. However, this section infers that revenues would decline if free enterprise were allowed to exist. This is a totally false assumption. That the market is there any economist will tell you that competition is much healthier than a monopoly in terms of growth. Actually, fair and aggressive competition should lead to an increase of revenue to the State plus creating more jobs in the Anchorage and Fairbanks areas as well as providing a healthier price structure for us lowly consumers. I question whether the Division of Tourism has done a study on this so called decline in revenues and as of last Wednesday they had not and had not been requested to do so. Subsection (c), this is pure bureaucratic bullfeathers as far as I'm concerned. I, and I am sure that members of this committee have never witnessed increase quality in service in any area as a result of government intervention or control. Rather this comes from healthy competition. If any firm offers inferior products at excessive prices it will not survive in a

free market place. However it can under a government monopoly as proposed because it will be the only game in town. If a firm does sell faulty merchandise or is fraudulent in its practices there are other areas of State government that already have authority, that being the fraud unit of the State Troopers and the Consumer Protection Agency of the Attorney Generals office. I ask this committee why put additional layer to bureaucracy, regulations, and costs in this area. Especially when they are totally unnecessary and redundant. Subsection (d), this part really concerns me as a citizen. In this subsection the state is saying that they have made exclusive contracts and now they are coming to the legislature to authorize their premature actions. It appears as if the State is asking you to cover up its goof of making possibly illegal and statutorily unauthorized commitments, and to unscramble their scrambled eggs. If I were the legislature I would be darn mad at the Department of Transportation and the State for usurping legislative authority in this area and then coming to me and asking for my infermoto after the fact. Subsection (e), this section states that it is the State's policy and intent to displace "unfettered business freedom in this area. Unfettered business freedom appears to be just another word for free enterprise. This infers that it's the States policy and intent to displace free enterprise. Maybe this is so in Sweden, Russia, and France. But I hope not here in Alaska. But as a believer in our economic system and opponent of State controlled industry, I am appalled and beyond scared of this trend. I am glad that this legislative body will be given the opportunity to stand up to such insidious intrusion as to take away of our basic rights as consumers, business people, and citizens. That being a right of a free and open market place. I personally would hate to see the State tell me that I could only buy my house through the exclusive realtor in Anchorage, authorized by the Department of Commerce to buy my television set from the State approved electronics store, or have my teeth cleaned by the exclusive State controlled dental clinic. We are not near there yet, but this proposed legislation helps open that door just a little bit wider. This

proposed monopoly, and I do point out in reading the bill that there is no provision for competitive bidding, there is for exclusive contracts. If this proposed monopoly is set up it's apparently being promoted to protect a foreign self interest group that wants to keep its lock on a \$50 Million dollar plush business in this State. And also to cover up a possible Administration error. I do not feel it is worth the price. I ask that this committee and the Senate reject the proposal for the best interest of the consumer and the business community of Alaska. Especially in an election year this is your opportunity to show the people of Alaska just where you stand or sit on the issue of the free enterprise system. Thank you for this opportunity to address the Committee.

Number 0600

Senator Kelly: Thank you Mr. Thompson. Are there any questions from the Committee. Next to testify is Mr. Robert F. Gillin.

Number 0602

Mr. Gillin: My name is Robert Gillin and I am Vice President of the Inter-Money Marts. It is an Alaskan corporation founded in 1979. Our firm is a family run business and employs between 10 and 15 employees depending upon the time of the year. We pioneered the foreign currency business in Alaska and more precisely Anchorage International Airport. And have been successful to date despite considerable competitive pressures and initial opposition to entering the business. I have lived in Alaska for 15 years, I am a constituent of Senator Dankworth's, I live one block away from him. I would like to thank you gentlemen for this opportunity to comment on SB 824 introduced by Governor Hammond. A bill which seeks to effectively exclude any other in-bond merchandise firm from infringing on the present in-bond concessionaires exclusive right to sell and deliver in-bond merchandise at International Airports in Alaska. I did not come here today to comment on the legality or constitutionality of the State of Alaska's granting of exclusive contracts at International Airports. Other parties more qualified will, I am sure, address themselves to those issues. I believe that

the Governor is taking the legislative initiative at this point that is logical and consistent with the legal concept of exclusive contracts. For the State of Alaska to issue an exclusive contract and permit third party interlopers to approach untrampled on the specific rights granted under the contract, would greatly diminish the benefits accruing to both parties to the contracts. In this instance the State of Alaska airport revenues and the exclusive contract holders gross sales and inevitably profits. Today I seek your assistance either attaching a rider to the present bill, or by a separate bill to exclude third party interlopers from weakening the exclusive foreign currency contract issued to our firm on April 8th, 1981 by the State of Alaska. Our position coincides with the current Duty-Free concessionaires position and that we acquired an exclusive and absolute right to all foreign currency business at Anchorage International Airport new satellite terminal in exchange for the substantial sums of \$252 Thousand dollars over three years. Which we shall be paying the State of Alaska on a monthly basis. To permit third party middle men to buy and sell foreign exchange under the guise that it facilitates in-bond gift shop or other sales is a spurious argument that would permit these middle men to reap wind-fall profits from these foreign exchange transactions which are properly ours, without having to report or pay to the State the required fees as the official foreign exchange dealers are required to do. Likewise it encourages fraudulent sales reports based on arbitrary and artificial foreign exchange rates. Inter-Money Marts in Alaska has the trained personnel, the sophisticated foreign exchange computers, and has the financial resources to handle any and all foreign exchange transactions at the new terminal as we have been doing for the past several years in the present terminal. Since November 1979 we have been operating a foreign currency exchange in the customs areas in the International Airport. From our experience and observations we know that we are only scratching the surface of the foreign exchange potential existing in this International Customs area. A very high percentage of all sales both in-bond

and gift items are transacted in foreign currencies. It is our estimate that the total buy and sell transactions can be counted in the tens of millions of dollars on an annual basis. Our firm is only participating in only a small portion of this business at the present. The records of the State of Alaska's airport accounting offices in Anchorage contain no reference to these transactions or revenues paid to the State for profits from the sales of these large sums of foreign exchange. Our firm would be willing to open up our books to the State of Alaska, auditors or accountants to prove the above. I believe in all fairness and equity that the State of Alaska should stance this hemorrhage of revenues once and for all. And demand strict accountability of all foreign currency sale revenue earned at International Airports at this time and restrict all foreign exchange purchases, sales and exchanges, to this states exclusive foreign exchange dealer from the date of opening of the new Satelite terminal in Anchorage. This is not the first time that I have brought this to the attention of the State of Alaska, I brought, one of the bid documents were made available over a year ago. I studied the bid documents and based on my analysis of the bid documents I sent several hundred dollars worth of telegrams to the administration officials and to some of you. Pointing out that there were certain inconsistencies as far as I could see it, I got very few replies. On March 19, 1981 I wrote to the Deputy Commissioner Ryan, pointing out my problems with the bid. I received no written response received some oral response after persisting in my requests. As recently as March 15, 1982 I wrote to Mr. Milsap pointing out these potential problems which I see as coming about when the new Airport opens. Frankly gentlemen we would have a very tough time making a profit covering our overhead unless we get that 80 or 90 percent of the foreign currency business that is passing us by or will pass us by under the present way that the State is doing business.

Number 0620

Senator Kelly: I am not quite clear about what you say Duty-Free is doing. Are they actually exchanging currency, or are they

taking currencies in lieu of goods. Exactly how is the exchange being made.

Number 0623

Mr. Gillin: I believe they can speak for themselves. They are here. Their point is, is that they are exchanging foreign currency for their in-bond merchandise. That is partially true, if a Japanese tourist comes in with a 10 Thousand yen note, which is very common which is worth about \$41 dollars and wants to buy a \$9 dollar bottle of Johnny Walker Black Label. He does not get 8 Thousand yen in return, he gets \$32 dollars. So in fact a major portion of that transaction is strictly a foreign currency into dollar transaction and there is a partial exchange there. The other point is that they are buying foreign currency in that instance, and if you are buying a foreign currency you have to sell it. And normally being a profit making organization they would attempt to make a profit when they sold it. If they do then my question is, as I am, or will be required to pay a fee on my foreign currency profits, why aren't they. The other point is we are dealing with a rather large firm at Anchorage International Airport and we have been dealing with them for several years, we buy their foreign currency on a daily basis. And they consider any profits that they make from those sales as miscellaneous income and they report it to the State. I do not want to be in the Duty-Free business, I don't want to deal with Chivas Regal, I want to deal with foreign currency.

Number 0630

Senator Kelly: Thank you. Are there any further questions for Mr. Gillin.

Number 0635

Senator Ziegler: I am going to have to leave in a moment Mr. Chairman but I would like to ask Senator Groh a question or two before I do.

Number 0640

Senator Kelly: Thank you Mr. Gillin.

Number 0642

Senator Ziegler: Cliff, is it your assertion, that the existing contract was illegally arrived at.

Number 0645

Mr. Groh: Yes sir it is.

Number 0657

Senator Ziegler: Fine. Then before you

explain upon... It is your subsequent assertion that by enacting this bill as written we will in effect be ratifying that illegal act. Do I get the essence of what you have been telling us.

Number 0660

Mr. Groh: That is precisely correct. You'll be ratifying it, you will be granting immunity to the people by ratifying it. And the contract was entered into sometime in the 1970's, its been extended. As I suggested in my testimony you don't even have copies of it. There are various audit reports concerning that contract, you don't have copies of those. I am told, I do not represent this to be true, that there are approximately \$5 Hundred Thousand in default to the State at the present time. In addition to that I would like to answer one other question that Senator Dankworth raised if I may.

Number 0663

Senator Kelly: Did you have any other questions Senator Ziegler.

Number 0665

Senator Ziegler: I do but I can wait till you address Senator Dankworth's.

Number 0667

Mr. Groh: Senator Dankworth, the difference in the operations is when the contract was entered into in the 1970's there was no competition, they got it, it has been extended for periods of time. It expires now in 1984. But the difference is, the difference between sale and delivery and sale. The point of sale is LIZ Duty-Free is either in Europe or Los Angeles. Those goods are moving in foreign commerce. The State has never stopped us and allowed us to get started and we have spent \$250 Thousand dollars in getting started and we delivered to the belly of the airplane. Now, since those goods are in foreign commerce they have not stopped us. This bill though will stop us and put us out of business. That's my argument, but the difference between the existing system and the one we are using is that we deliver to the belly. Our point of sale is different, and we are willing to pay a commission on the basis of that delivery. But they will not enter into an agreement with us, but they won't stop us either.

Number 0675

Senator Dankworth: I realize that you have

to run, but I wanted to ask just one more question in that regard. When you first started that business here, when it came in, was there any negotiation or talking with the administration that they told you not to do it or to do it or that it was OK and go right ahead.

Number 0700

Mr. Groh: They never said do it, they never said do not do it. We advised them all through out that we intended to do it and what our proposed operations were, and what our permits from U.S. Customs said that we could deliver and we've been delivering all this time. And nobody has ever stopped us, but this bill will stop us and put us out of business.

Number 0720

Thank you Mr. Groh. It is the intention of the Rules Committee to take a break now till right after session. So we will recess and try to get testimony finished up by noon today. My guess would be 11:00 to 11:15 a.m. when we come back. So I hope that you will all be able to return at that time. The Rules Committee is recessed.

Number 0770

Senator Kelly: Commissioner Ward would you please come and address the Committee.

Number 0772

Commissioner Ward: Thank you very much Mr. Chairman and members of the Committee. My name is Bob Ward, Commissioner of Department of Transportation and Public Facilities. If I could, Mr. Chairman. I will talk strictly about the bill and I will not address questions raised by Mr. Money Market unless there are questions from the Committee on that issue. As has been mentioned before, or alluded to, this bill would put LIZ out of business. Perhaps that characterization is not completely true but it's close. What it is specifically designed to do is to stop the operation that they are presently engaged in now. If that puts them out of business, that puts them out of business but it is to stop the operation that they are involved in now. The Department of Transportation and Public Facilities probably contrary to some opinion does not generate much legislation for the Governor to introduce as part of his administrative package. And it is probably good reason that we don't because he doesn't let us help him introduce much. The fact

that this was introduced and that we prevailed on him to do that, this late in the session, is a pretty definite clue to the importance that the Department places on it. When LIZ Duty-Free first contacted the State and they have never contacted me directly but my people in Anchorage, and they have not lied to me yet that I know of, they were never favorably received. We were defending the agreement, the contract, that we have with Duty-Free because the agreement is mutually beneficial to them and to us. When they approached us with the thought of sales elsewhere than at the airport with the merchandise going directly into the baggage of the airplane. They were told as bluntly as Pat Ryan could tell somebody and those who know him know that that is fairly blunt. That they were not welcome, we did not want them, they were cutting into the revenue generating potential at the airport and that we were going to do everything that we could do to stop them. Now when we went to the Department of Law to say how can we protect the contracts that we have in place. How can we protect 25% of the revenue stream for all the International Airport Revenue fund. We were advised by the Department of Law on their best advice that there was in fact no way to stop them that they could think of that would be iron clad except this bill. That is why the bill is before you. It is also absolutely no surprise and we have no disagreement with the fact that the State could receive more revenue from Duty-Free. As a matter of fact in all fairness to everyone Duty-Free approached us as long ago as least two years maybe two and a half to three years ago to ask for an extension, a negotiated extension on their present contract, because of the new satellite terminal was going to come on line. And that would give them the opportunity to develop the facilities if they could just go in and do it, and have a negotiated extension and they would be willing to pay some more money for it. We had told them then and repeatedly since then until this day, no, we were going to, when their contract expired we were going to competitively bid the Duty-Free concession at the International Satellite Terminal. And we are in fact going to do that. Their contract expires in 1984, as it has been

discussed here. We planned and have already notified people who we think might be interested in the competitive bidding that we were in fact going to advertise the competitive bid for the Duty-Free concession. And that effort will take place in 1983 prior to the expiration to the contract because we want to have it in place by the time their contract expires. There is absolutely no prohibition to LIZ Duty-Free from bidding on the concessions when that time occurs. In developing this legislation the exclusive provision was subject to question as we did develop it. The Department and the Governor did not particularly want to introduce legislation that could be controversial to start with. At a late stage in the session and not have as much support for it as possible. So we had hoped that we would have some friends in this committee, we do have some friends in this committee, its Duty-Free. Its an unusual arrangement for us because generally in many cases as they will attest and they can speak for themselves, they're on the other side. Because they wanted to get a little more out of this and sometimes we might be prepared or equipped or would be practical to give. The exclusive while maybe questionable as whether it is absolutely necessary or not. I have talked personally with the head of the Transportation Department of Hawaii. He said that it is very important, my feeling was as Cliff suggested earlier, Cliff Groh that is, that you could take the exclusive out of it and just cover by contract any in-bond merchandised sales would be covered by contract with the state. I felt at one time that that might be enough. I have been advised by the people in Hawaii that it is enough, that if you wanted to stand the law suits that are going to occur after you competitively bid and don't open it up for two or three or more than one concessionaire. I think that that is a small price to pay. I also think that Mr. Chairman that the issue is being clouded by this denial of the free enterprise principal and the exclusive contract, that is really not the point. What we are trying to do is protect agreements we have, just like for the food service and the Administration sees no other alternative. You might want to put

in there that it is the intent of the legislature that it be competitively bid, or put it in the law. That is not a big point with me. But the other amendments that former Senator Groh was suggesting that other people off the airport can put merchandise in the airplane, would allow that to occur, no way, no shape, no how. If people feel that it is in the best interest of the State to protect 25% of the revenue stream in the International Airport Revenue Fund. The operation that LIZ Duty-Free is undertaking right now, pays not one cent to the State, not one.

Number 2/0015

Senator Kelly: Thank you Commissioner. Is there any other questions for the Commissioner from the members of the Committee. Yes, Senator Dankworth.

Number 0017

Senator Dankworth: If this bill were to pass, would they be willing to pay or would they become involved in paying. They wouldn't even be in business if this were to pass.

Number 0045

Commissioner Ward: No, but even if it didn't pass, and this is something that perhaps might be some concern as to why we don't go to LIZ now and ask them to pay something for the operation. We should try to work out an agreement now, in our opinion that would be contrary to the contract and the agreement that we do now have with Duty-Free.

Number 0080

Senator Kelly: Commissioner a question. I don't know if you were around when the original contract was even signed. Was it a competitive bid at that time when it was originally signed way back when.

Number 0101

Commissioner Ward: I do not know that it was, but it is my impression that goes clear back to 1969, I am not aware that whether it was a competitive bid or not. I am aware that there was an extension a five year extension granted by a negotiation that was specifically and originally for 10 years, 1969 to 1979. You may recall there was authorization for International Airport Revenue Bonds to build a new Satellite terminal in Anchorage, believe it or not in 1974. At that time a five year extension

was granted to Duty-Free by negotiation, that's the best history that I have on it right now. The original contract was twelve and one half percent (12 1/2%) the one that's in place now is thirteen point seven five percent (13.75%).

Number 0105

Senator Kelly: Is it my understanding then assuming that the contractor made valid to 1984, then it expires, then the Department will renegotiate the percentage figure when it goes to competitive bid.

Number 0185

Commissioner Ward: Absolutely, we are on record of that and I am sure that Duty-Free will attest to that. We have been struggling and fighting with them over it for at least two to two and a half years now.

Number 0190

Senator Kelly: Thank you. Is there any further questions of the Commissioner. Let me call to the Committee's attention for the record that in your stack of your materials in front of you are two telegrams from Mr. E.J. Miller from LIZ Duty-Free, one dated March 25, at 6:41 p.m., the other one I received this morning. It appears to be a larger expansion of the original telegram

dated March 25th. The Committee would like to hear from Marty Farrell.

Number 0200

Mr. Marty Farrell: Mr. Chairman and members of the Committee, I am Marty Farrell. I have been the lawyer for Duty-Free since 1968 and I would really like to make just a few remarks and introduce Joe Lyons who could answer any economic questions that you may have. In answer to your question to Commissioner Ward. Duty-Free has the concession to sue and to competitive bid. This was the only time this concession was put out to competitive bid was 1969. And we were the only ones who even bid for it. So we did bid for this. The competitive bid is not an issue in this case. The reason it was extended for five years is that you may recall at that time the State sold the bonds to build the building and had let out the lease to "Howard Lease Construction" to build the terminal back then. And at that time we had four years left and it was the State Department of Administration approved

the renegotiated five years as to what is amortized as shop. We are in on a competitive bid and we understand the rules of competitive bidding. Earlier today Mr. Groh made a comment and he was good enough to preface his comment in fact he didn't quite know whether it was fact or not but Duty-Free is not in default of anyone, any payment to the State under this concession. Never has been in 13 years and in fact is, does somewhat have a credit with the State if any for early payments over a number of years. Mr. Becker spoke about the problem of the bill that would not allow people like LIZ Duty-Free to be in because it was a three year requirement in the bill before you. There is no three year requirement. And I think the essence of the arguments made here is that someone else wants to come in and pay the State the highest percent possible when the time comes for competitive bidding they should step right up and join everybody else in their efforts to bid this thing in the highest interest in the State and in themselves. The percentage in all of these contracts is never bid. So no argument to the effect that if we're in we would bid the higher percentage. You don't bid percentages in competitive bid contracts and contracts pursuant to which the State earns its revenues. You only bid the guaranteed annual minimum. So whatever the State sets in 1984 we cannot argue with that. They set 17, 16%, you have to, you don't bid the percentages the State sets it. So the arguments within the last couple of weeks that the State could have had more are really without foundation because the State said we had to pay this amount for 10 years which we had to pay.

- Number 0230 Senator Kelly: Let me break in for a moment Marty. When was the 13 3/4% originally negotiated.
- Number 0235 Marty Farrell: That was put in when we got the five year extension.
- Number 0237 Senator Kelly: So that would have been in 1977.
- Number 0240 Marty Farrell: That would have been in 1974. See our original contract was in 1969 to 1979 and it was extended five years until

1984. And that was done in late 1974.

Number 0251

Senator Kelly: Ok. Do you happen to know when Hawaii, has Hawaii always been at the 20% figure.

Number 0260

Marty Farrell: Just when we put it out to bid in the last year or two.

Number 0270

Joe Lyons: They have had two percentages: 12 1/2%, and 20%. They have been at 20% for the last ten years. And would be the concession would expires in 1980. It went back out to bid at 20%.

Number 0280

Senator Kelly: Were they at 12 1/2% before 1980 or 20%.

Number 0285

Joe Lyons: It was scaled at 12 1/2% on the level of volume and then it would go to 20% after a certain level of volume. So it has been certainly 20% since 1970.

Number 0300

Marty Farrell: I have copy of a newspaper article which has I think Senator Ferguson has as the latest state of the legislature in Hawaii. Two or three days ago a bill which is identical to the one before you. In there is passed the Senate and is passing the House. For all the reasons that Commissioner Ward emphasized. That the legislature there after three years believes that it is in the best interest of the State to have an exclusive. I might add though that in the history of the Anchorage International airport. There has been exclusives since 1953 when Northwest took over all the... exclusive is nothing evil and nothing new. There is a point that has not been brought out in these hearings but if this bid in 1984 is to have any integrity, if there is to be a concession in which the State can put out the bid and earn millions of dollars in revenue then this bill will protect that resource. If there are off-site operators and if one comes there will be two or three. It is my personal belief that after watching this business for thirteen years there will be no more airport concession Duty-Free operations if several off-airport operators are allowed to participate. And that way the State will lose in my opinion a resource.

Number 0330

Marty Farrell: Joe Lyons has been dealing with the Department of Transportation and Duty Free up here for a dozen or thirteen years and he had several figures that he would like to give you relative to our fees, our taxes, etc.

Number 0350

Senator Kelly: Thank you. Marty could you stand-by please for questions.

Number 0360

Joe Lyons: My name is Joe Lyons, I am the President of U.S. Division of Duty-Free Shoppers. And I have been involved with the Anchorage Concessions since 1969. As indicated we support the SB 824, as a bill which will render immune from challenge contract for Duty-Free which is currently in (sic). And will preserve the integrity of the contract after the lease expires in 1984. Commissioner Ward said at that time it would be put out to bid, we hope that we will be the successors but there are no guarantees. We have won bids and we have lost bids. Perhaps this morning I could give you some of the business background and some of the economics of the Duty-Free business after which I will be happy to answer any questions that you might have. In 1969 we won the contract here on a competitive bidding process. Our revenues in that first year were \$95 Thousand dollars. And in 1981 they had risen to \$5.6 Million dollars and in the last five years since 1977 we have paid into the Department of Transportation Revenue Fund \$22 Million dollars in concession fees. There has been some comments made that Duty-Free is duty free and they don't pay the normal taxes and other things required of another business. That is not true we pay our full compliment of federal and state taxes. In the last five years in Anchorage alone we have paid in excess of \$3 Million dollars in State taxes. We also employ 200 people in the Anchorage area, and you well know that they also contribute taxes and other parts to the general economy of the United States.

Number 0380

Senator Kelly: Excuse me Mr. Lyons, how many people do you employ.

Number 0384

Mr. Lyons: Over 200 people, 210, 215, it depends.

Number 0390

Senator Dankworth: Is that direct employment. Not counting indirect employment.

Number 0395

Mr. Lyons: Those people are all on the payroll. The question was raised on the percentage and the percentages. We have conducted studies of major airports in the United States and the percentages vary from airport to airport. I checked my notes in the recess time and you have an example of Miami who has a percentage of 11%. They pay... I think their revenues are \$2 Million Dollars. Seattle where it is 10%. San Francisco which is 12.5%. Anchorage is 13.75%. Los Angeles at 15%. And Honolulu at 20%. So as you can see there are a number of different percentages in effect for Duty-Free operations around the country. What happens usually is that the concessions come up for a rebid at that point the percentage fee is addressed as I'm sure it will be when the lease comes up in 1983-1984 here in Anchorage. Our company runs Duty-Free shops in the Far East and in the United States and we have acquired all those Duty-Free shops through the competitive bid process. So we are very familiar with that and we deal with competitive bidding probably every year of our life. As far as the Anchorage Duty-Free shop is concerned I think it is probably one of our most unique operations in the United States. It is the second largest in the country behind Hawaii. The \$5.3 Million dollars we generate up here puts it in that category and with slightly over one million passengers passing through the airport that works out to be over \$5 dollars a head in concession revenues which we generate. So I think we have a very successful format and the revenues attest to that. As I say Anchorage is rather unique because in Anchorage we have essentially a transit business. Ninety-five percent (95%) of the business we have done from transits passing through the airport with a 55 minute transit time. What we do is take pre-orders and convince the people on that 55 minute stop over to buy in Anchorage on their way over to Europe, to check around and buy on their way back. They have competitive prices, merchandise assortment, and everything is set so that people will think of Anchorage on their way to Europe. As I

mentioned they are transit they are heading to Europe to do a number of things including shopping. So our goal in the Anchorage concession is to take advantage of the short time frame and maximize our revenues. Another thing we do is we concentrate on a full sale per passenger. So we have a wide selection of merchandise, tobacco, pens, lighters, watches, and our goal is the maximum sale of the passengers. The question of competition in Duty-Free can be a little misunderstood. There is competition and that competition is in the competitive bid process. And that I can assure you is one of the most toughest type of competition that you can have. There is also plenty of competition for Anchorage with the different European shops, Duty-Free shops, and non-Duty-Free shops where the people are heading to buy. But the question of the competition for the concession has been widely discussed in Hawaii and other places we favor the one concession format. We feel that the one concession format is proven, it is traditional, custom is expected. The exclusive concession will throw off higher guarantees to the State or any municipality, as people, when you're bidding for exclusive concession you know exactly what your going to have. In other words you are not worrying whether the plane comes in at one end of the terminal or the other, you know you have total access to that model. Typically airports when they do change with their exclusive concessionaire will simply add extra shops so the concessionaire has the access to that market. Competition of two out or three concession format, I don't feel brings any more revenues. I feel it will bring it less guarantees, I feel that the customers in the case of Anchorage could be confused, as most airports having one concession format. I feel that there can be in this 55 minute transit stop a lot of time lost moving around from shop to shop, whether you are going to buy here or there. And there just simply is not that period of time. In Honolulu in 1980 there existed a similar problem and that was that the Department of Transportation, and I was involved with our company's bid the every step of the way. The Department felt without protective legislation to immune from antitrust they

had to have two concessions. So they put out a two concession format, we won one concession, and Host International a large company won the other concession. But it did not work. After eight months Host withdrew from the operation at Honolulu. They had lost many millions of dollars, they fired and terminated 500 hundred employees, all Honolulu residents. They forfeited a three million dollar performance bond and then they left Hawaii. The revenues between the two concessions could not increase, in fact they decreased. So that format was a failure. The other question and the other point of competition is what we have been discussing here this morning and that is off-airport concession and permittees. That question has also been addressed in Hawaii. The question is should the State allow someone to take preorders off the airport for delivery onto the airport, and we are opposed to that concept because we think that it will reduce the revenues in the concession. What happens is that the person taking it off the airport whether Los Angeles, Paris, or any place else strictly limits themselves to two categories. Say two out of the ten categories. The liquor and tobacco can be loaded onto the plane, but that is the part of the business that you use to draw the people into your full line Duty-Free sell. So once that business has taken off at less than the percentage being paid you will find that the revenues will fall. The State of Hawaii has addressed that over the last couple years along with the question of the two concession format and has decided after testimony of the studies that the State of Hawaii interest is returning to the one concession format. Not to allow people to deliver onto the airport, but to keep the concession as an exclusive. They feel, and we agree, that an off-airport concession will reduce revenues, it will not pay its fair share, it will reduce employment, and it will allow little investment in its community in which it operates. I think that we pointed out today that the LIZ operation pays nothing in Los Angeles, and testimony to the Hawaii legislature a number of the certain permittees some said they would pay, some said they would not. In fact I am not so sure you can force someone

to pay the fees of coming in and on the off airport. So after all that it was felt that the best way to run a Duty-Free concession is to have an exclusive lease, to join other airports within the world, to put it out to competitive bid, and to protect that concession and maximize the revenues. Anchorage we have found in the years that we have operated here, is probably one of the most fragile airports. As you know the planes are stopping on a transit basis, going to and from Europe, there are other routes. They can go through Moscow, Hong Kong around the bottom part of Asia to get to Europe. Or they can fly direct to and from the mainland. We feel the Anchorage concession over the last number of years has produced a substantial amount of revenues. It has held down fees to the Internationals, making it beneficial for them land here. It has held down fees for domestic tourism, held down airfares which encouraged domestic tourism, but we feel that its a formula which is proven and which we feel should be continued in the future for us or whoever the concessionaire might be. But it is in the States interest to continue this successful format.

Number 0451

Senator Kelly: A question Mr. Lyons. It is somewhat often the legislation itself is in response to Mr. Gillin's questions about what he felt was inloping on his exclusive franchise in currency exchange. Do you actually exchange currency in your operation up there.

Number 0465

Mr. Lyons: We do and everyone else operating in the airport, as far as I know has a right in their lease to exchange foreign currency as a service to the traveling public. I think that there is a clause in there as well, that does not mean that you have to set up a foreign currency business, as Mr. Gillins business. But we do that as a service to the people who are buying in the shop. If they want to buy in a different currency, we will exchange that currency in order to make the sale.

Number 0488

Senator Kelly: Let me see if I understand this. Do you actually have a counter where you would exchange yen for dollars, prior to the purchase.

- Number 0500 Mr. Lyons: No we have each of our sales girls capable of making that exchange right on the spot. Because we want to, as I mentioned in that 55 minute period, maximize our sales. So we are geared to do everything we can to do that. So if somebody comes in with yen, pounds, francs, or marcs we do not want to lose that sale we want to deal in foreign currency as well.
- Number 0520 Senator Kelly: But I think what I am trying to get at is do they actually pay for a purchase in yen, and then get dollars in return. Or do they actually give you 10 Thousand yen, and you give them so many dollars, then they make their purchase.
- Number 0540 Mr. Lyons: They would give us yen, and we would convert that yen into dollars, and they would make that purchase using that yen. We do not receive 10 Thousand yen, or \$41 dollars, give them back \$41 dollars and then have them give us back the \$41 dollars. We simply exchange that currency on the spot to make that sale.
- Number 0550 Senator Kelly: Do you have to exchange currency or is that...
- Number 0560 Mr. Lyons: We have to get that sale when we can so a person comes in and they have dollars that's fine. If they come in and have yen or marcs we want to wrap up that sale up very quickly.
- Number 0570 Senator Kelly: Say they come in with 10 Thousand yen, and the purchase item is 8 Thousand yen, do you give the change always back in the same currency in which you receive. In other words would you give them 2 Thousand yen back or would the change be in dollars.
- Number 0580 Mr. Lyon: The change is usually made in dollars, I think we will also give yen back with the foreign currency depending if we have enough in the till.
- Number 0590 Senator Kelly: Do you do any out right exchange at all.
- Number 0600 Mr. Lyons: No. It is always connected with the purchase.

Number 0610

Senator Kelly: Senator Dankworth.

Number 0615

Senator Dankworth: I think Commissioner, did you want to comment.

Number 0620

Commissioner Ward: Yes, Mr. Chairman. Excuse me for this. But in that connection, let me point out that when the foreign exchange concession was bid for the International terminal. A provision in the specification upon which they bid provided for and guaranteed those concessionaires dealing with international trade the right to, in connection with the purchase, had to be in connection with the purchase, that they could be involved in foreign exchange. And that's the basis under which the concession was bid. I wanted the record to show that, because that is what we would enforce based on the contract we have is that over concessionaires would not set up a money exchange. But within connection of the purchase they do have the right to exchange currencies.

Number 0640

Senator Kelly: Yes, Mr. Gillin I will accept a response.

Number 0643

Mr. Gillin: Yes certainly I was aware of that proviso that was in the bid documents, and I wrote a two or three page letter to the Department of Transportation I think that it was in that rhyme asking clarification along those points. The bid document was very good, there were no rules, something like that has to be policed, because people who are in the business now at the airport now have instances where their employees are noticing the difference between what they are accepting the foreign currency at and what we are buying it at or what the bank down the hall is buying it at. At the present time we have three people in business. All what we want is what Duty-Free wants. A true exclusive. The other question I think is very pertinent here is the State has not had since the beginning of the contract any rules and regulation, accounting forms, that Duty-Free must account for their foreign currency. At what rate did they buy it at, what rate did they sell it at, are they making a profit, are they paying the State a percentage, this was never done. I drew their attention to it

some time ago. A year ago, so I have been patient.

Number 0662

Senator Kelly: Are there any further questions from the Committee. Thank you Mr. Lyons. Is there anybody else who wants to testify. Ms. Armistead.

Number 0668

Ms. Armistead: I am Regional Manager for LIZ Duty-Free. I would like to respond first to Commissioner Wards comments. Myself and Mr. Miller met with Mr. Lyon in December and informed him of our operations, what we planned on doing, the fact that we had applied for a federal permit and what type of permit or licenses we would need to be able to deliver to the airport. At that time he said he would refer it to the Attorney General's office he had marked the board for a meeting with us to go over the documents that we gave them. We followed up with our noon times along with Mr. Lyon to let them know where we were progressing when the permit was issued, when we would start delivering, and what was the State's position, could we deliver or not. We were never told that we could not deliver. We were never stopped. We also talked to Mr. Lyon about that we would like to bid on the concession in the new airport when it came up for bid. We asked him the time schedule on that, how to get on the bid list and had they lined up the bid requirements yet. He went over some of them, told us they were to bid a year prior ending to the contract, and to qualify to bid, that you had to be in the Duty-Free business within the State of Alaska for six months prior to bidding. Approximately a week ago to follow up and verify that, Mr. Groh met with Mr. Lyon who was informed at that time that instead of the six month requirement within the State of Alaska, that they were going to put in a three year requirement within the United States. Also we keep comparing Alaska to Hawaii, I would like to bring out the differences there. What we are trying to do here is retain the right to deliver the goods to the airport. The goods that are sold at another point, and we are talking about selling these goods at a destination point were the purchasers are already out shopping and they are going to buy from someone in Paris, someone in New York,

someone in Los Angeles that they already out there shopping. So why not take advantage of where ever they buy, they are already out shopping, and being able to collect a commission when the goods are delivered in Anchorage. That is not a direct competition with the current Duty-Free shoppers in the airport. These people have already made up their minds to buy these goods in whatever town they are in. When they come through here we are not currently in the airport. We are not a competition to the airport. We hope that when the bid comes, we hope to be able to bid and we would like to see more than one Duty-Free operation out there. We thought that we are unique from Hawaii in that aspect if they are a destination area, I can see where downtown airport operations are a direct competition to the Duty-Free shops in the airport there. That is not what were speaking of here at this point. LIZ's plans in the future are to open in downtown Anchorage. If that would interfere with the contract that we could deliver the goods and pay a commission on the current operation those plans can be put off, or they can be changed. What we are concerned at this point, is the right to continue to deliver the goods, which the State has not prevented us from getting into.

Number 0710

Senator Kelly: Is there any questions from the Committee. Yes, Senator Dankworth.

Number 0715

Senator Dankworth: It was the indication from the Commissioner that they made it pretty clear when they considered these kind of going around. You did not get an approval from them did you.

Number 0720

Ms. Armistead: We did not get an approval. What they stated was that they had an exclusive contract with the current Duty-Free operator and they would have to refer that to the Attorney General's office, Martha Mills would be the one that would be reviewing it and she would be our contact from that end, and that they would let us know after they reviewed it if it was a violation of the contract. As we went along with our plans as the permit came through and as we started talking with people, setting up and ordering inventory, we continually talked with her, we met with Mr.

Lyon a couple of other times, we corresponded with him and the response we received was that... We sent a letter to the International Air Carriers at the airport informing them of their operations and stated that the Department of Transportation would not take a stand and that it was up to the airline carriers to receive our goods. It was not their position to take a stand.

Number 0760

Commissioner Ward: I would like to say for the record that they never wanted any part of it, and if there was any way that we could have stopped them from day one we would have.

Number 0770

Senator Kelly: Thank you Commissioner. Is there any other questions from the Committee. Thank you Margo. Is there anyone else who would care to testify. Tim Miller indicates that he can have the transcript of this meeting done up by tomorrow afternoon. I would suggest that we meet again Thursday morning at 9:00 a.m. to determine what our recommendation is going to be on this bill.

Number 0777

Senator Dankworth: We may have a conflict Mr. Chairman on Finance. We may have a 9:00 a.m. meeting I cannot recall.

Number 0780

Senator Kelly: How about 8:00 a.m.

Number 0785

Senator Dankworth: Or 8:30 a.m.

Number 0790

Senator Kelly: The meeting is adjourned till 8:30 a.m. Thursday morning.

TURN HISTORY STORE OFF
CONTINUE ?

C E R T I F I C A T E

STATE OF ALASKA)
)ss
FIRST JUDICIAL DISTRICT)

I, EVE FOX, a Notary Public, duly commissioned in and for the the State of Alaska, do hereby certify that the foregoing transcript of the March 30, 1982 public hearing before the Senate Rules Committee relating to Senate Bill 824, was recorded by Tim Miller of the Senate Records Staff and thereafter transcribed by me under the direction of the Senate.

I further certify that the transcript consisting of pages 1 to 34, both inclusive, is a full, true and correct transcript of the proceedings, considering the quality of the tape and the information furnished to me.

I further certify that the Senate Records Staff is in no relation to any of the parties, nor financially interested in the action.

I further certify that the original of this transcript was given to the Senate Rules Committee, pursuant to their instructions.

IN WITNESS WHEREOF, I have hereunto set my hand and my notarial seal this 6th day of April, 1982.



Eve Fox

Notary-Public, State of Alaska
My Commission Expires: My Commission Expires:
March 25, 1983

COMMITTEE TAPE LOG 1982

tape no. 1 side A

committee: Rules

date 3/30/82 to None

bill numbers: SB 824 | | | | |

other information: Sen Zugler, Ferguson, Kelly, Donkworth

Date/Time	Tape Meter No.	Bill	Significant Information (Witness, Action)
	000		Sen Kelly opens meeting at 9:15
	035	824	Kelly brings before committee Cliff Goe, Duty-free Competitive bidding, till doesn't provide Suggested adding amendments Creates monopolies
	65		
	113		Passage of bill would ^{benefit them} not
	173		Made comparison to Hawaii's situation
		Amend #1	Pg 2 line 21 ^{delete} - sale & delivery insert comp. bidding.
	230	Kelly	Any quest. from committee
	235	Zugler	Not now but may later
	240	Kelly	Chuck Becker outlines background Promotes fee enterprise system.
	290		Thinks bill jeopardizes that system Does not support passage of SB 824
	346		Read statement from Duty-free shops
	368	Zugler	What if bill is not unbalanced.
	375	Becker	We want to open up shops You will enhance state inc.
	383	Donk.	Who else would compete
	400	Becker	No one including us.
		Donk.	L12 wants to be now instead of later.
		Becker	

COMMITTEE TAPE LOG 1982

tape no. _____

committee: _____

date _____ to _____

bill numbers:

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other information:

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Date/Time	Tape Meter No.	Bill	Significant Information (Witness, Action)
	781	Ward	Designed to stop L12 present practices.
		Ward	Gov. places importance on SB 884
	802	Ward	Defending contract and bill because Admin sees no other alter.
	000		Sen. Kerttala arrives
	015	Kelley	Any questions.
	017	Pank	Asks question
	045	Ward	Would be in conflict to collect bag.
	080	Kelley	2 telegrams submits to Comm.
	101	Kelley	introduces Marty Farrell
	105	Farrell	Legal counsel for Duty Free
	185	Kelley	Asks quest. about Hawaii
	190	Lyons Farrell	submits news article from Hawaii regarding Duty Free Shops
	237	Lyons	Puro U.S. Division. Duty Free Shops Supports bill
	314		Relates tax is paid by duties fee to State
	395		off airport access ^{concession} is no good
	451	Kelley	Quest. Do you actually exchange foreign currency.
		Lyons	Yes, but
		Kelley	change back in different agency.
	500	Ward	Ward - that gov. is in contract
	530	Millam	Need to clarify foreign exchange rate.

Date March 30 1982

SENATE RULES COMMITTEE HEARINGS

WITNESS SIGN-UP SHEET

- ①
- ②
- ③
- ④
- ⑤
- ⑥

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BOB WARD	Commissioner DOT/PF	DOT/PF
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