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Perspectives on Alaska's Publicly Funded International Trade Programs

House Special Committee on International Trade and Tourism

Chairman: Representative John J. Cowdery

20th Alaska State Legislature

HOUSE SPECIAL COMMITTEE ON INTERNATIONAL TRADE AND TOURISM

20TH ALASKA LEGISLATURE

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REPRESENTATIVE JOHN J. COWDERY

Dear Fellow Alaskan:

This report is about change. In 1983, I sponsored legislation to establish foreign trade offices in Seoul, Korea and Taipei, Taiwan. We were full of anticipation about burgeoning economies in the Pacific Rim nations. We wanted Alaska to reap some benefits in international commerce. To be sure, global trade increased; so did competition. The economies of Pacific Rim nations expanded as we thought they would. Recently, they crashed like we didn't think they would. I look at the results we get from the offices I sponsored a long time ago and I see that they didn't fulfill the hopes we had for them.

The economies of all nations change. It suggests to me that Alaska's approach to international trade should be adaptable to changing conditions in the world markets. We should follow the advice of the great and mysterious American patriot who said, "follow the money."* It is less than optimal to promote trade and tourism in countries that are undergoing a financial crisis. Yet, we can't afford to do everything, everywhere. So choices must be made.

We won't always make the best choices. We'll err sometimes and succeed at others. What we absolutely can not do is to shrink from self evaluation. We need to give ourselves honest feedback about the cost effectiveness of state funded activities that take place under the umbrella of international trade.

This report is offered in the spirit of self evaluation. To the extent it highlights problems, it does so without levying blame. Many governors, many legislators and many bureaucrats have tried sincerely to do the job of increasing Alaska's international business activity. Our programs are not working as well as they should. We must try something different. If there is blame to be levied, it will be for the lack of courage to set out in new directions when we see that change is needed. This report is about change. It's never easy.

Respectfully submitted,

Representative John J. Cowdery, Chairman

* Deep Throat

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Executive Summary

This report reviews existing International Trade programs offered by the State of Alaska, the United States Department of Commerce and private sector programs. Research initiated by the 19th legislature is reviewed and the conclusions applied to current programs. Analysis unveiled several primary areas of concern.

- First, Alaska's international businesses assistance services are fraught with duplication. Multiple agencies publish information, offer market research, and conduct business assistance programs that are an exercise in redundancy. In no sector is there a State sponsored service or program that is not available in a more effective format from the private sector or the Federal government. As conditions stand now, Alaska's General Fund expenditures for International business promotion are grossly ineffectual.
- Second, there exists within Alaska's international business assistance programs an absence of meaningful performance measures. There are none. Monies are allocated and activities are initiated with little or no relation to actual private sector demand. On occasions where private enterprise is actually contacted or involved, there is no evident effort to objectively assess agency effectiveness. State programs and private sector needs are like bubbles in a breeze. They randomly collide and occasionally move in the same direction as the atmosphere shifts around them.

State programs and private sector needs are like bubbles in a breeze. They randomly collide and occasionally move in the same direction as the atmosphere shifts around them.

- Third, this report considers the fundamental question: what is an appropriate role for the State of Alaska in relation to international business assistance? Options for streamlining and privatization are set forth and their respective merits discussed.
- Finally, research and analysis leads to the conclusion that State sponsored international business assistance services be substantially reduced while the Seoul and Tokyo offices be reorganized and funded to match the Taiwan model. Services currently offered would be better performed by contracting with the World Trade Center of Alaska who may offer international assistance to qualifying Alaska companies on an as-needed basis. Contractual service with the World Trade Center could fulfill the "one stop" export model desired by the private sector. They offer unrivaled international contact potential, overseas market analysis and a credible demand-based structure of support that has proven responsive to the changing business environment. In an effort to move the discussion forward, the Department of Commerce's response to similar previous proposals is summarized and discussed

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Building On the Past

Thanks to Previous Legislature's Initiatives on Alaskan Foreign Trade

In an effort to determine the State's proper role in the emerging International business frontier, the previous legislature had the foresight to spearhead two unprecedented research projects. Their goal was to identify the most effective means of assisting Alaskan businesses in their international trade endeavors. Specifically, they studied the nature and trends of Alaska's exporters: what motivated them to enter the global marketplace, where they go to find information on foreign markets and how they establish business contacts. This report builds on the work of previous legislators and researchers. *A special acknowledgment is due to this committee's previous chairperson, Representative Beverly Masek of Willow.*

Representative Bev Masek
Immediate Past Chair

Private Sector International Business Needs Assessment

First, in July 1995, the 19th Legislature commissioned the World Trade Center of Alaska to conduct a "*Private Sector International Business Needs Assessment*"[1].

This is the most comprehensive review of Alaska's international business community ever undertaken. It queried 2,000 Alaskan businesses about their overseas trade experiences, frustrations and aspirations. Potential exporters described the services they would most likely use. Businesses were asked about their motivation for and their perceived obstacles to international trade. Finally, they were asked to detail what services an ideal state business assistance program would offer.

Of the two thousand businesses contacted, 271 (13.5%) responded. Key findings of the survey included:

- *The State's current trend of providing broad, generic support and promotion for Alaska products benefits large natural resource firms in Pacific Rim markets while disenfranchising smaller firms who need a more global, customized approach to trade assistance.*
- *The array of agencies offering business support services leads to confusion among potential users. A one-stop contact point would add credibility and effectiveness to the state's position.*
- *While there is some measure of need for government services, many internationally active companies hire private expertise to deal with overseas challenges.*
- *One of the greatest challenges for exporters is the lack of export finance information or assistance in assessing what funding opportunities may exist for a specific business.*

Agency Evaluation Recommendations

Once the results of the *Private Sector International Business Needs Assessment* were compiled, the 19th Legislature contracted with International Trade Consultant, Timothy Lane. Mr. Lane composed a review titled *"Agency Evaluation Recommendations"* in which he outlined structural weaknesses and service gaps in the State's existing business assistance framework. Mr. Lane's observations bring the following points to bear:

- Coordination between international assistance services within the state is "virtually nonexistent."
- Little distinction is made between efforts intended to promote foreign investment and those designed to assist Alaskan businesses interested in overseas trade. Consequently, establishing performance benchmarks is "nearly impossible."
- The state's current export assistance scheme favor's large companies at the expense of small business. In essence, Alaska is helping those who do not need it while overlooking those who do.
- Alaskan companies would profit from the services of an export finance specialist.

  Mr. Lane summarized his evaluation of Alaska's international trade assistance network:

  > *"Alaska's international service network is a hotbed of service duplication, obsolete market assumptions, intense inter-organizational competition, and governmental waste. Clearly, Alaska can do better."*[2]

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Legislative Response, 1996

In response, the Senate/House Interim Task Force on International Trade adopted a resolution[3] addressing the points brought forward by the legislature's research. In review, the resolution encourages:

- the consolidation of State export services,[3]
- the co-location of State services with those offered by the Federal government and the private sector,[3]
- the formation of an export finance assistance program, and [3]
- the gradual reduction of funding to fixed overseas offices in favor of a more global trade assistance program.[3]

Tourism Findings Of The Previous Committee

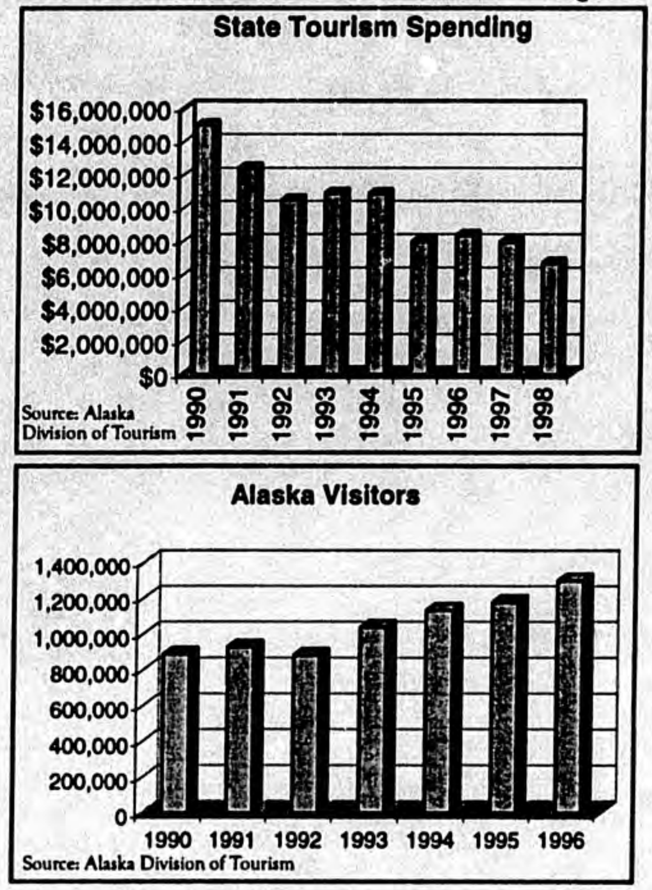
Tourism is a major component of Alaska's economy and offers a perpetual source of economic stimulus. The previous Committee leadership diligently sought to discover and respond to the needs of Alaska's tour operators, and particularly those midsize and smaller concerns that can not mount a significant marketing campaign of their own. They found that the Alaska Tourism and Marketing Council and its primary contractor, the Alaska Visitors Association, were structurally inclined to benefit large tour companies and were generally less able to meet the needs of small or site specific operators.

> *"The ideas and energies of major companies doing business in Alaska are self serving and have left a huge gap in the dispersion of tourism dollars in our state. Smaller businesses and individuals are left to survive on the trickle down economics of large scale promotion and funding."* [4]

The underlying concern of the committee was that in contrast to most smaller companies, many of the large firms are not Alaskan owned.[5] In some measure, small, localized tourism businesses feel the efforts of ATMC and AVA are not supportive of Alaska's principle economic interest: Alaska's businesses.

> *". . .the type of advertising being funded by the Legislature must be state-of-the-art and must reflect more site specific markets. Generic advertising has been designed to blend nicely with the advertising of major tour companies, but does little or nothing to fill the huge gap in the smaller communities and markets throughout the state."* [6]

Figure 1



Alaska's international trade and tourism programs.

Then and Now

In the past, it was possible to show a direct correlation between the state dollars we spent promoting tourism and the number of tourists who travel here. The more money spent, the more tourists came here. It was easy for the legislature to see the effect of their budgetary commitment. However, as our tourism industry grows and diversifies, the correlation is less clear.

Despite our dwindling tourism promotion budgets, our tourist numbers have grown steadily. AVA and ATMC are quick to point out that the industry has greatly expanded its carrying capacity to Alaska. There are more cruise ships with more staterooms and more airline flights with more seats than ever before. Sophisticated internet marketing and reservation capability allow the carriers to increase sales with last minute, deep discount fares. The industry spends a staggering amount of money promoting their Alaskan packages. They criticize the state for being an inconstant partner in this regard (see Figure 1). Their expenditures, additional capacity and technology are responsible for our increase in tourists.

But, the volume of tourists is not the whole story. Not all tourists are created equal. Some spend more than others. Many small shop owners say the number of non-spending tourists is increasing. They spend all their money on their package tour and have negligible extra money to patronize local vendors. This situation begs the

Part of the problem is that not everyone understands the goal of the state/ATMC advertising effort. According to Mary Pignalberi, former Director of the Division of Tourism and current Manager of the Alaska Film Office,

> *"The advertising program's primary thrust is to attract tourists to the state. That's the priority. We sell generic Alaska instead of specific business venues. If people don't understand that, then their expectations get inflated. We should probably educate our own industry about the limits of the advertising program. We can do more to promote small Alaskan businesses to tourists but it will cost more. Our top priority simply has to be to attract them here."*

20TH LEGISLATURE'S CHALLENGE

Against this backdrop, the 20th Legislature's International Trade and Tourism Committee initiated an effort to assess the effectiveness of question of whether the state's spending cutbacks disproportionately affect our small, independent vendors. Additional questions exist about redundancy, administrative cost and role confusion between the three voices of the tourism industry, i.e. Alaska Division of Tourism, Alaska Tourism Marketing Council and the Alaska Visitors Association.

Tourism Industry Rises to the Challenge

> *"The time has come for change. The visitor industry cannot afford to watch as the state's tourism contributions continue to erode the effectiveness of our marketing. This, combined with the increasing competitiveness of other destination, dictates the need for a proactive approach."*[7]

In response to legislative initiatives to decrease state spending, the tourism industry responded in a remarkably positive and constructive manner. AVA and ATMC put forward The Millennium Plan which restructures the long-standing private-public partnership between the industry and the State of Alaska. The Plan consolidates AVA, ATMC and elements of the Division of Tourism. It proposes a phase-down of state spending to a sustainable, annual level while increasing the industry's financial contribution for tourism promotion.

Senate Bill 350 was designed to implement the millennium plan. The measure would require that the state's contractor contribute 30% of the marketing campaign costs through June 30, 2001. On July 1, 2001, the contractor would be required to contribute 60% of the marketing costs. The Plan is undergoing evaluation and will be presented in final form to the next legislature.

*The Committee's materials will be turned over to House Records office at the end of the 20th Legislature.

INTERNATIONAL TRADE

In 1997, the House Special Committee on International Trade and Tourism held two oversight hearings on publicly funded programs that promote international trade. Testimony was taken from trade assistance experts, consultants and administrators from both the public and private sector. Virtually every state-produced publication that relates to international trade was gathered and reviewed*. This report is the result, in large part, of information presented to the Committee.

> *"We've got a lot of work to do"*
> *- Representative John J. Cowdery*

Internet Guide to Trade Services Offered by the State

- Alaska Division of Trade and Development *http://www.commerce.state.ak.us/trade/*
- Alaska International Airport System *http://www.dot.state.ak.us/external/aias/aia/aiawlcm.htm*
- Alaska Industrial Development Export Authority, *http://www.alaska.net/~aidea/*
- Alaska Seafood marketing Institute *http://www.state.ak.us/local/akpages/COMMERCE/asmihp.htm*
- Alaska Center for International Business

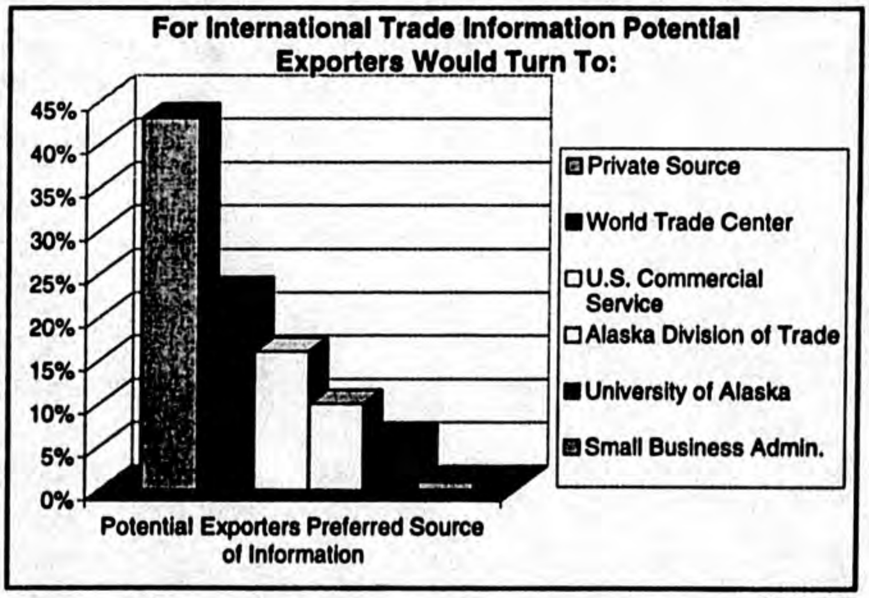


Figure 2

http://genghis.scob.alaska.edu/CENTERS/acib.html

- University of Alaska: American Russian Center
  http://www.arc.uaa.alaska.edu/arc/
- World Trade Center, Alaska
  http://www.wtca.org/wtc/anchorage.html
- Anchorage Economic Development Corporation, *http://www.aedcweb.com/*

Alaska Division of Trade

Alaska Division of Trade and Development (DTD), "serves as a commercial liaison for the state and for private sector businesses which trade in international markets."[8] (see appendix E). The Division seeks to promote Alaska businesses and their products. They conduct research and analyze Alaskan business and international trade trends. Specialists assist the mining, logging and fishing industries in marketing their products and attracting outside investors. The Division offers overseas trade mission assistance, product marketing support and international market information.[8]

While the agencies desperate for funding can conjure up a few anecdotal "success" stories, the reality is that the State of Alaska has spent large sums of money with the barest of results.

The Division delivers research through the distribution of printed materials and internet pages with downloadable publications. Business assistance services are rendered through locations in Juneau, Anchorage, Tokyo, Seoul and Taipei.

Publication Production

The Division of Trade and Development produces a number of publications including newsletters, market reports and brochures. These are available at the Division offices in Fairbanks, Juneau and Anchorage and are distributed to all State libraries.

The Division is currently working to make their publications available through their web page. Currently there were nineteen (19) Division sponsored documents available on-line. As the internet becomes more accessible, costly print projects may be avoided in favor of the less expensive web-based publication.

Many of the Division's publications are produced with little regard to actual public need. For instance, the Division went to considerable time and expense to develop and print 2,500 copies of the 92 page guidebook "Establishing a Business in Alaska." At a cost of $3.68 each, the document "is expected to bring in revenue equal to the cost of printing and distributing."[9] The Division sells the booklet for $11.50 by mail and offers it for $8.00 over the counter.

As of January 1998, *one hundred and sixty seven* had been sold. Assuming that this number does not include those distributed to State offices, the "expected revenue" amounts to $1,385 dollars offsetting the $9,200 production cost. (153 over the counter, 14 by mail) From a results-based perspective this amounts to a cost of $55.08 per copy delivered.[10]

Overseas Offices

Through their contract offices in Seoul, Tokyo and Taipei, the Division offers overseas representation and on-the-ground contacts with potential Pacific Rim customers and investors. These offices are also responsible for promoting Alaskan tourism and seafood in their respective nations.

Expenditures in foreign offices have been reduced over the last several years. Additionally, the offices of Tourism and Trade in Korea and Japan have been co-located to increase efficiency. Including tourism promotion services, the overall cost of maintaining our foreign offices exceeded $1.2 million dollars in FY 98.

A summary of foreign office activity from the Department of Commerce indicates that the Korea and Japan offices assisted in over 65 "trade missions" between Alaska and their respective nations.

However, DTD defines 'trade mission' very loosely as any group that is assisted by a trade office.[11]

Additionally the offices produced numerous market reports, press releases and publications. Activities of our Taiwanese contractor are more limited, with only 5 trade missions conducted and a few publications produced. The Taiwan office apparently uses a more traditional definition of 'trade mission.'

Mr. Lane reviewed the operations of Alaska's foreign offices and observed,

> *"While export assistance is among DTD's strongest preoccupations, it is clearly the organization's weakest activity point."*[12]

Additionally, Mr. Lane found that the Division's Pacific Rim focus is "obsolete" and a "potential barrier" to Alaskan businesses seeking to operate in an ever-evolving global marketplace. He asserts that in a time of global competition and global opportunities,

> *"... private sector international marketing plans consistently transcended the state's string of protocol efforts."*[12]

Alaska's Trade Focus

One half of the International Trade budget is allocated to three Pacific Rim cities. Yet the *Private Sector International Business Needs Assessment* showed that Alaskan businesses are competing in a global marketplace.[1] The Division's unbalanced financial commitments present an effectual obstacle to those Alaskan entrepreneurs looking to tap the markets of Southeast Asia, Europe, China or South America, to name a few.

Foreign Office Contracts

The Division of Trade deems the foreign office contracts to be exempt from state procurement statutes. Consequently, these contracts are not subject to competitive procurement. Although professional people in Korea and Taiwan have written to DTD requesting information about the timetable and procedure to be considered for future contracts, they report that they received no reply from the Department. The procurement exemption and DTD's practices for manning the foreign offices should be reviewed by the legislature in the near future.

A separate procurement issue in the foreign offices that needs to be reviewed is the practice of sole sourcing publication contracts to former state employees.

China Policy: Few would dispute that mainland China represents tremendous potential for Alaska's petroleum, fish and timber resources. Yet, it is an open question whether Alaska's relationship with Taiwan will be an obstacle if we pursue greater economic ties with China. The time has come to engage in a thorough discussion of the risks and benefits of a one or two China policy.

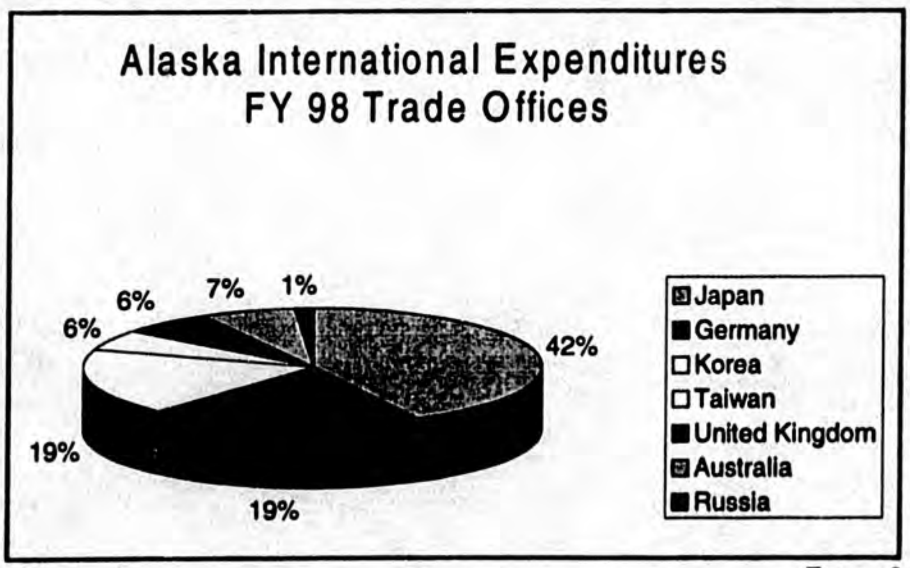


Figure 3

Furthermore, it would be prudent for the Administration to quantify China's market potential and set forth a policy and program to assist Alaska's private sector.

Personnel Problems

The personnel structure of the Division of Trade and Development is seriously flawed and will continue to give rise to many of the problems now plaguing the Division.

Specifically, many of DTD's Trade Specialists are political appointees who perform identical work as classified employees. Mr. Lane notes,

> *"DTD is vulnerable to structural disintegration every time a new governor is elected."*[13]

During the past 18 months, turnover among Trade Specialists reached 100%. The Division lost significant talent in foreign language capability, in-country experience and educational credentials

Does the competition between Anchorage and Fairbanks confuse or drive away potential operators? Are the efforts of Fairbanks and Anchorage redundant?

As staff come and go, their individual experience and insights are lost. Lessons unique to Alaska's business environment are lost at the whim of new political leadership. This, in conjunction with exceptionally high Department-wide turnover, routinely forfeits institutional maturity, stability and consistency.

Until Division employees are granted a long-term commission and a more precisely focused role, the situation is unlikely to improve.

Virtually all of the Division's foreign business assistance programs stand as an ineffectual duplication of more efficient private sector and Federal services available to Alaskans at no cost to State government. The Division offers overseas contact points. So does the U.S. Commercial Service and World Trade Center.

The Division also publishes export statistics– information that is simply re-compiled from U.S. Customs reports available to any interested entity. In spite of this reality, the Division pursues its numerous programs with stubborn insistence that they remain invaluable to Alaska's business community. In view of the ambiguous demand[14] for the Division's services, it appears that the Division is conducting activity in search of meaning–at significant expense to the State.

Alaska!
Alaska International Airport System

Anchorage and Fairbanks International Airports are linked through a common, dedicated fund and an Assistant Commissioner that oversees the International Airport System (AIAS). All revenues for operation of these two airports come from airport operations. No general funds are in their budget. They are internally funded and self-supporting. The Anchorage airport operates at a profit. The Fairbanks airport operates at a loss which is offset by the International Airport Revenue Fund.

Anchorage International Airport - For FY 97, the income for Anchorage International Airport is an estimated $50.1 million dollars.

Their marketing goals are focused on attracting domestic and international air carriers to utilize their facilities. Private contractors that specialize in marketing cargo and passenger services carry out most of their program. Their marketing budget is a modest $450,000 sourced from the International Airport Revenue Fund. The Airport engages in targeted marketing of carrier groups, freight consolidators and freight forwarding operations in countries geographically located to take advantage of Anchorage's northern routes, namely the Pacific Rim. Additionally, AIAS contracts with the Anchorage Economic Development Corporation in a partnering effort to take advantage of AEDC's overseas contacts.

Fairbanks International Airport contracts with the Fairbanks Industrial Development Corporation to market the airport internationally. The contract is structured as not-to-exceed $100,000 annually. In fiscal year 1997, the FIDC billed the Fairbanks International Airport $88,378. In contrast to Anchorage efforts, the Fairbanks airport, through FIDC, has been able to attract Allied Signal and Boeing to use Fairbanks Airport as their base for cold weather testing of jet technology.

During our Committee's oversight hearings it came to light that AIDEA's Export Assistance Program was never utilized during the entire ten years the statute was on the books. (AS 44.88.080)

The Fairbanks Industrial Development Corporation targets potential carriers and freight operators, promoting Fairbanks' geographic location and fueling advantages. It would appear that Anchorage and Fairbanks Airports engage in uncoordinated, separate and perhaps competing marketing programs. Are potential customers receiving a mixed message about the benefits of Anchorage versus Fairbanks or Fairbanks versus Anchorage? Does the competition between Anchorage and Fairbanks confuse or drive away potential operators? Are the efforts of Fairbanks and Anchorage redundant? Or, does the operation of two separately run, separately funded, pro-Alaska organizations increase the exposure of Alaska's air transport strengths internationally to the benefit of both organizations and the state as a whole? As both entities operate on carrier fees, these questions step beyond the scope of this review but certainly warrant more specific investigation.

Alaska Industrial Development & Export Authority

The Alaska Industrial Development and Export Authority's mission is,

> *"To promote, develop, and advance the general prosperity and economic welfare of the people of Alaska, to relieve problems of unemployment, and to create additional employment."* [15]

A brief review of AIDEA's annual report and project fact sheets reveals that the vast majority of the Authority's resources and energy is directed at the development of large capital improvement projects. Hydroelectric plants, mining roads, fish processing plants and public docking facilities provide the necessary infrastructure for domestic business success. The following list of recent AIDEA projects details the Authority's predisposition to larger enterprises.:

- Healy Clean Coal Project ($69.6 million)
- DeLong Mountain Road (Red Dog Mine) ($103 million)
- Alaska Seafood Center (up to $50 million)
- Alyeska Alloys, L.L.C. (up to $50 million)
- Snettisham Hydroelectric Project (up to $100 million)
- Skagway Ore Terminal ($25 million)
- Federal Express Aircraft Maintenance Facility ($28 million)
- False Island Marine Center and Public Dock ($5.9 million)
- Unalaska Ballyhoo Dock Expansion ($7 million)

During our Committee's oversight hearings it came to light that AIDEA's Export Assistance

Program was never utilized during the entire ten years the statute was on the books. (AS 44.88.080)

AIDEA contracted with a consultant to perform a study on alternatives for Export Assistance. The consultant made three key findings:

1. To the extent that Alaskan businesses need export finance assistance, their need is in combination with conventional loan assistance.
2. There was no identifiable demand for Export Financing Assistance that wasn't already being met, and
3. AIDEA could provide no additional service that wasn't being provided already through the federal Export-Import Bank and local banks.

AIDEA developed House Bill 386 which passed the House on March 20 and was signed into law on June 18, 1998.

HB 386 converted the Export Assistance Program into an integral component of AIDEA's Business Assistance Program.

Specifically, the new program allows borrowers to utilize the loan guarantees and forego political risk insurance in certain cases.

One legislative analyst summarized the AIDEA study and HB 386 as, "a new rationale to keep the status quo."

While HB 386 represents no new initiative to provide export assistance, it facilitates AIDEA's strategy of coupling local export services with federal programs such as the World Bank. This "piggy back" approach to other programs may be a model for the Division of Trade to emulate.

Alaska Seafood Marketing Institute

The Alaska Seafood Marketing Institute (ASMI) was founded in 1981 to market Alaska's number one export: seafood. While it does not receive any general fund dollars, ASMI's contribution to Alaska's international presence is significant.

The Institute is mandated to generically market Alaskan seafood products in both the domestic and international markets. ASMI's funding comes from three major sources: federal grants, a seafood processor tax and an ex-vessel value fish tax.

It is less than clear why both the Division of Trade and Development and ASMI have independent marketing programs for Alaska's fisheries.

Self Supporting: Roughly $3 million dollars of Federal funding is used to target international markets in mainland China, Japan, Taiwan, Australia, and most European Union countries, including Spain, France, and Great Britain. ASMI receives a 3/10ths percent tax from fish processors and a 1% gross ex-vessel value tax from fisherman. This 1% tax is statutorily mandated to fund domestic marketing efforts. The wisdom of restricting their marketing in this way has been questioned and may be reconsidered. In 1998, their operating budget was near $8 million dollars.

It is less than clear why both the Division of Trade and Development and ASMI have independent marketing programs for Alaska's fisheries. The legislature should consider consolidating them in the most cost effective manner.

Salmon & White Fish: ASMI's primary focus is salmon promotion. In recent years they made significant inroads in the national school lunch program and food service wholesale distributors.

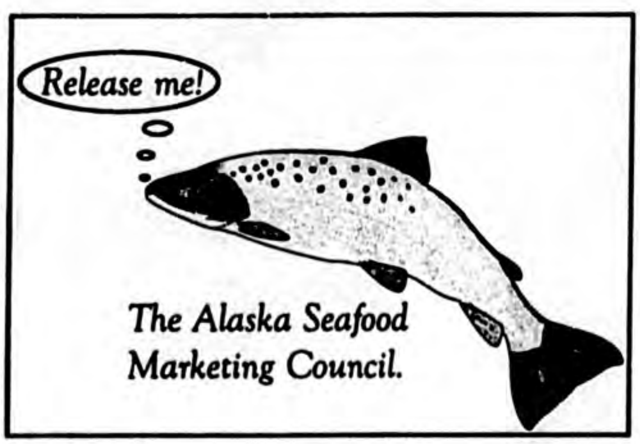
ASMI also undertakes promotion of Alaska's many white fish species and realizes considerable success. While competition from farmed salmon is increasing, white and bottom fish species offer more stable and growing markets.

Alaska Seafood Marketing Institute's charter automatically sunset on June 30, 1998. Renewal legislation unnecessarily occupied ASMI and the Legislature until late in the session. (Its new tenure expires 2003). Additionally, each year ASMI must come before the legislature for budget approval and program scrutiny.

Call For Legislative Restraint ASMI uses no state funds. The taxes paid by the fishermen and processors are voluntary taxes collected by the state, but not mandated by the state. They are used as matching funds for a federal grant. ASMI is an example of an industry paying for itself. As such, the legislature should unfetter ASMI. They have a Board of Directors competent to manage their affairs. Legislative oversight is largely unnecessary and distracting from their goals. The legislature should consider exempting ASMI from the Executive Budget Act. A marketing cooperative or nonprofit corporation may be a more suitable form of organization for their mission.

The Alaska Center for International Business was defunded in Fiscal Year 1998 per the recommendation of the Interim Task Force.

University of Alaska: Alaska Center for International Business



The University Board of Regents created the Alaska Center of International Business (ACIB) in 1984. Their goal was to:

> *"... facilitate the development of sound business and economic relations with nations of the Asia-Pacific region and other nations of the world, and to help Alaska diversify its economy and expand its economic base through international trade."(http://genghis.scob.alaska.edu/CENTERS/acib.html)*

The Center maintained a trade database which tracked Alaska export and import activity. Echoing a familiar trend, the ACIB tracked the flow of natural resources from Alaska, particularly with the pacific rim countries.

The Alaska Center for International Business was defunded in Fiscal Year 1998 per the recommendation of the Interim Task Force. The bulk of the savings were transferred back into the Alaska Technology and Science Foundation. (The termination of the ACIB's funding was not done as part of a comprehensive plan or effort to streamline or improve the state's overall international strategy.) In fact, it was the only Task Force recommendation actually implemented.

University of Alaska: American Russian Center

Operated by the University of Alaska and primarily funded by grants from the United States Aid for International Development and the United States Information Agency, the mission of the American Russian Center,

> *"... is to train Russian entrepreneurs, promote the development of Russian small business activities in the Russian Far East, and promote linkages between US and Russian companies."*[16]

Through its offices in Anchorage, Khabarovsk, Sakhalin, Yakutsk, and Magadan the Center focuses on educating Russian citizens in the methods of successfully operating businesses in a free-market context. Business management practices, protocol and techniques are taught with the goal of establishing a prosperous small-business infrastructure in the Russian Far East. To date, 14,000 people have completed classes offered through the American Russian Center.[16]

Alaska's geographic proximity to the Russian Far East makes the establishment of a stable business environment there of interest to all Alaskan companies with international trade capabilities. Indeed, one of the Center's stated goals is,

> *". . . the promotion of the business linkages between U.S. and Russian companies."*[16]

Additionally, the Center offers logistical support for U.S. businesses in the Russian Far East. Translators, transportation, and communication assistance are available on a "cost reimbursement basis."[17]

Every year the American Russian Center's programs and effectiveness are reviewed by the U.S. State Department prior to annual grant approval. This analysis ensures that the Center's programs are on-target and responsive to the actual needs of potential business people on both sides of the international date line. Federal funds being applied effectively through the University system serve to enhance Alaska's international trade stature and avail more business opportunities for Alaskans.

United States Commercial Service

The United States Commercial Service is a component of the U.S. Department of Commerce with offices in Anchorage, and 135 foreign cities. The mission of the Commercial Service is to:

- "Promote the export of goods and services from Alaska
- Maintain job security, and create jobs
- Protect and advocate for Alaskan business interests abroad
- Assist Alaskan firms in realizing their export potential by providing expert counseling and advice, information on overseas markets, international contacts, and trade promotion vehicles
- Support the export promotion efforts of other public and private organizations creating, through partnership, a full-service export development infrastructure."[18]

In the *Private Sector International Business Needs Assessment* the U.S. Commercial Service was the most preferred choice for export assistance. Mr. Lane notes that,

> *"[The] CSUSA provides Alaskan companies access to the most comprehensive range of trade support services in the United States (at no cost to the State of Alaska). CSUSA's services are so complete that every state supported export assistance organization in Alaska essentially duplicates CSUSA services in one way or another."*[12]

On December 12, 1997 the Alaska Department of Commerce and the U.S. Commercial Service announced that their Anchorage offices would be co-located in the Frontier Building. Co-location is an important step towards fulfilling the "one-stop" export assistance needs of Alaskan businesses. However, the conspicuous question remains:

Does the State of Alaska have any business duplicating

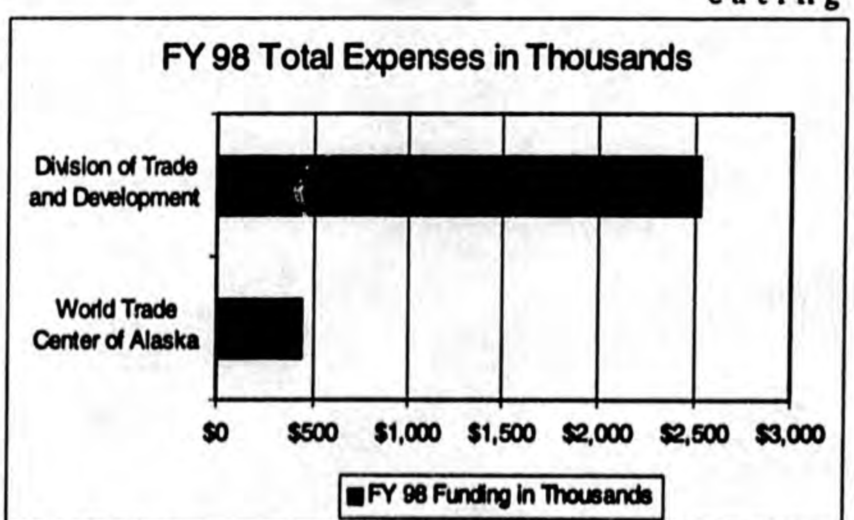


Figure 4

Federal services even if they are next door? What damage would be done by simply referring interested Alaskan exporters to the Commercial Service? "They're right down the hall."

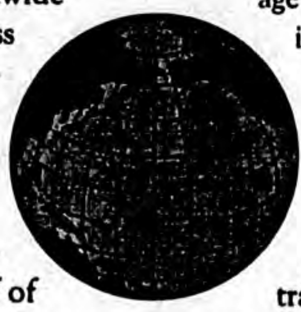
World Trade Center

The mission of the World Trade Center of Alaska (WTCA) is:

> ..."*to provide a quality service in an efficient manner to members so that trade is facilitated for Alaskan businesses in the international marketplace.*"[19]

The World Trade Center is supported by a variety of fees charged for membership, conferences, services and publications.

Through its association with over 300 World Trade Centers in over 100 countries, the WTCA provides networking opportunities second to none. Additionally, the WTCA offers educational courses on export, import, trade and business issues. As part of the World Trade Center system, the Alaska chapter offers worldwide communication services, global business profile databases, and on-line information systems designed to expedite international trade efforts.



In 1998, the World Trade Center for Alaska will receive no Federal or unearned State funds. For less than half of the cost of the State's overseas offices alone, the World Trade Center effectively and efficiently provides its 200 members with services that surpass those offered by State administered programs.

The World Trade Center Alaska is a franchise license owned by the University of Alaska. It has been in competition with other international trade programs at the University. Too frequently it is treated as the political bastard-child of the governor's office and the University President's office. The State of Alaska's Division of Trade and Development is its primary competitor.

During the past year, the WTCA attempted to incorporate as an independent nonprofit corporation. However, they were stymied by the governor's office; and the University refused to transfer the license. Instead, for reason that is unclear, the University terminated all of WTCA's employees without consultation with the Director. New appointees to the Board of Directors were pre-approved by the Governor and new employees were hired. Non-profit corporation status was finally achieved as of July 1, 1998.

Yet, the State of Alaska, Division of Trade and Development remains the most significant competitor and worst detractor of the World Trade Center, Alaska.

Anchorage Economic Development Corporation

AEDC is the Municipality of Anchorage counterpart to the state's Division of Trade and Development. It has the same mission for Anchorage as the Division does for the state. AEDC is a private, nonprofit corporation. Its funding comes from private donations, state and municipal grants. In FY 98, their budget is $1.24 million for both domestic and international operations.

AEDC's involvement in international trade is inherent in its charter and in its role as marketing contractor to the International Airport System. It publishes an Annual Work Plan, a Five Year Business Plan and periodic project status reports. Its goals are well defined and lend themselves to measured performance.

AEDC is developing an econometric model to demonstrate the advantages of Anchorage based logistical operations. It will be used in making presentations to attract companies to Anchorage from overseas and the lower 48.

Issues of Concern

Redundancy Reduction

Duplication of services among agencies is one of the principle causes of inefficiency within the State's export assistance framework. A review of material published by the Division of Trade and Development reveals that the bulk of services offered by State agencies are available from other State funded efforts, the United States Commercial Service or long-standing organizations in the private sector.

According to the chart published by the Division of Trade,[20] there are no services offered by the State that are not also available in the private sector. In fact, a more detailed analysis indicates that according to the Department's own criteria (what they think is important to businesses) there is not a *single* service offered by the State of Alaska that is not also available through Federal or private organizations. When budgets are being cut on all sides, and lawmakers are forced to find the least severe method of reducing spending, such apparent redundancy raises the question: is it responsible for the State to continue duplicating services available elsewhere?

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Non-Existent Performance Measures

The Division of Trade suffers from the lack of a tangible mission and measurable goals. In his response to the Governor's expanded FY 99 budget, Representative Mark Hanley, House Finance Committee Co-Chair summarizes the legislative majority's results-based budgeting guidelines:

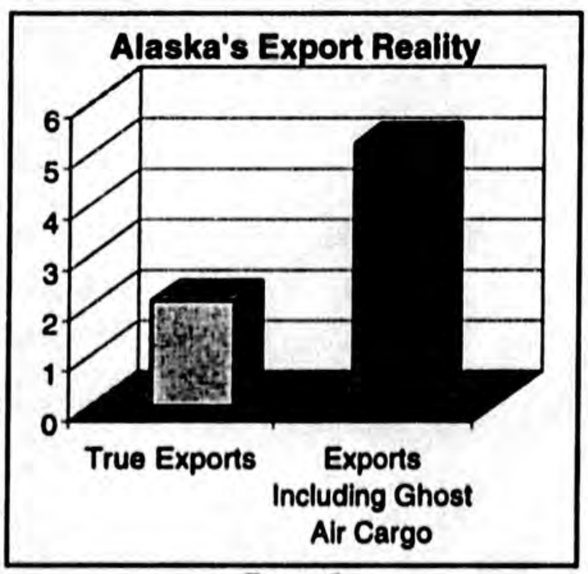


Figure 5

"Our goal is to develop budgets based on results. That requires cooperation between the legislature and the administration to develop goals, evaluate performance and require accountability. Good performance should be rewarded and emulated, poor performance should be altered and ultimately eliminated." - Representative Mark Hanley

Given the multi-million dollar budget of the Division of Trade and Development and the hundreds of thousands of dollars sent abroad, the inability to measure the Division's performance is a red flag.

Budget accountability is a problem that plagues all economic development programs. According to a study conducted by Conway and Nothdurft,[21] too many foreign trade offices try to justify themselves with,

> *"activity numbers, e.g., the number of meetings attended, phone calls answered, trade seminars attended or sponsored, leads listed, etc."*[21]

Alaska is not alone in finding it difficult to report "hard export sales." Other states have the same problem. They are doing innovative work to stay on mission and be focused.

Of course, the Alaska Division of Trade is quick to cite the growth of Alaska's exports. They highlight "trade missions" and related activities.

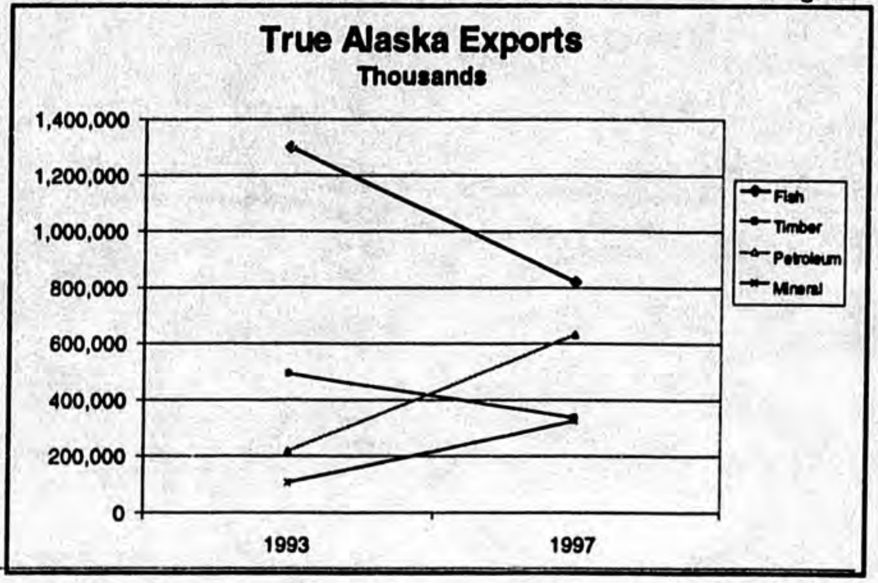
Based on their study of similar programs throughout the lower 48, Conway and Nothdurft caution:

"Under current fiscal conditions, clinging to activity numbers while hoping for the best is no longer sufficient. More-

over, legislative audits of state trade program have found that even these "results" are weakly documented, inaccurate and sometimes significantly exaggerated."[21]

Results from Alaska's foreign trade program would be easier to measure if they were more tightly defined. Increased definition, however, makes shortcomings easier to criticize. Once we have a good program in place, we need to look at shortcomings in our results as guide marks for our future course.

Figure 6



Distilling Ghosts

The federal government collects massive amounts of information on foreign trade and travel. The information is feedstock for user groups who distill it for their own purposes. Sometimes, state agencies take the feedstock, do not distill it, and simply repackage it with their own label.

While the Division of Trade benefits by painting a rosy picture of Alaska's export growth, the reality is that two of our major economic sectors are not doing well.

Consequently there is a lot of questionable information available about the nature of Alaska's foreign trade.

For example, a state publication entitled, Alaska's Top Ten Export Markets, lists the People's Republic of China, Belgium, Italy and Thailand among our top ten trading partners. Most Alaskans would be surprised to read that Alaska exported $87 million worth of chemical products to the PRC, $29 million worth of transportation equipment to Italy (a lot of dogsleds?) and $790K of rubber to Belgium. Surprising? Yes! Correct? No!

Ghost Exports

Each day international shipping giants move millions of dollars worth of cargo through Anchorage International Airport. This activity generates *billions* in ghost export figures for the state; figures which are quickly cited by those asking the state to spend more to promote trade growth.

Upon inquiry by IT&T Committee staff we learned that the data is derived from export declaration forms required by the U.S. Customs Bureau, distilled by the U.S. Census Bureau, then repackaged and labeled by the Alaska Division of Trade and Development.

It seems that Anchorage is the official U.S. Customs exit-port for many U.S. cargo aircraft that transit Anchorage International Airport enroute to their overseas destinations. U.S. Customs, and in some cases U.S. Shippers, register the exports at the official exit-port instead of the state of origin. However, our State foreign trade officials refuse to recognize the disparity between U.S. Customs records and the records of exports actually produced in Alaska.

For lack of distilling the Customs data into a relevant information product, the State of Alaska has been publishing misleading reports about our export activity.

"Irrational Exuberance"

A hard look at the facts about Alaska foreign trade reveals a disturbing trend. Fishing and timber exports have fallen sharply in the last several years, offset only partly by increases in oil and mineral exports.

Underlying this shift is a more troubling observation. The fishing and timber industries are more job intensive than the petroleum and mining industries. The fishing industry, especially, spins off more jobs for small business and individuals than any other industry. They have the most direct impact on the economic welfare of the greatest number of Alaskans.

"While export assistance is among DTD's strongest preoccupations, it is clearly the organization's weakest activity point."[9]

In contrast, oil and mineral reserves are extracted by large out-of-state, even foreign, corporations. Their greatest impact is directly on the state treasury. While the Division of Trade paints a rosy picture of Alaska's export growth, the reality is that two of our major economic sectors are not doing well.

A close look at the numbers presented in Alaska's Top Ten Export Guide (see appendix D) reveals that the vast proportion of trade with foreign entities is conducted by large corporations who use Alaska merely as a raw material source or transportation pit-stop on their way to Pacific Rim profits. According to International Trade Consultant Timothy Lane, most of Alaska's export deal-making occurs through long-established corporate and financial channels, few of which exist in Alaska. "Today, the export of natural resources is largely controlled by outside intermediaries. . ."[22]

> *"Indeed, the* Private Sector International Needs Assessment *found that most international trade flow from and through Alaska is conducted by corporations who employ international trade specialists and maintain foreign networks independent of any State agency."*[23]

Appropriate State Involvement

Alaska needs to regroup and rethink the role of state government in fostering a healthy international business climate.

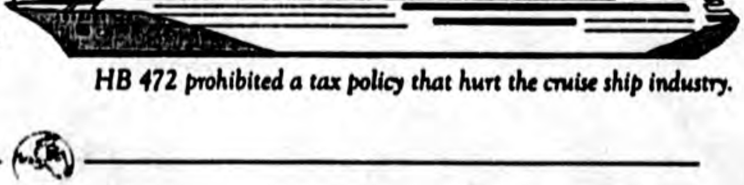
The State occupies a vital position in the eyes of potential foreign customers. Foreign corporations often seek assurances that the companies they deal with are reputable and in good standing with the State authorities.

Perhaps most important, the State of Alaska occupies a unique position in the eyes of foreign governments. While the role of the state in private enterprise is minimal in the United States, in foreign societies government involvement is often quite high. The state's chief role must be to support its resident businesses by providing a "government-to-government" presence where it is most expected and needed.

Mr. Lane noted that in the event that an Alaskan business finds itself the target of unfair foreign business practices, or governmental harassment, the State may consider "going to bat" for Alaskan companies.[12]

* * *

House Bill 472, *An Act relating to apportionment of business income,* is an excellent example of government's appropriate role in fostering overseas business. With the Alaska Supreme Court ruling in February 1998 that the Department of Revenue may tax foreign-flagged ships and planes, Alaska's position as a competitive trade stop was jeopardized. Indeed, such taxation could have cost businesses that operate in Alaska



HB 472 prohibited a tax policy that hurt the cruise ship industry.

millions of dollars yearly, thus driving consumer costs higher. By taxing foreign vessels, Alaska would expose its water carriers to retaliatory taxation by the affected countries.

As the ramifications of the Court's decision became known, Alaskan businesses sought relief from the legislature. The House Labor and Commerce committee, Chaired by Representative Norm Rokeberg, sponsored House Bill 472 to prohibit the anti-business taxation policies sought by the governor and to enhance Alaska's standing in the international arena. The measure overwhelmingly passed both bodies of the legislature. Good location, low taxes and minimal regulatory interference remain Alaska's best trade lure.

There is a significant responsibility placed on those who would encourage small, young Alaskan companies to engage in the volatile, unforgiving game of international trade.

Observations & Recommendations

Forming Obtainable Objectives

Alaska's financial well-being has always been vulnerable to the ups and downs of a natural resource economy. If salmon prices are high, the State's businesses enjoy a cash infusion. If the price of oil goes down, the State's treasury takes a corresponding dip. It would be in the interest of all State residents, therefore, to foster a more diversified economy. With this simple objective in mind, the Department of Commerce has pursued market research, hundreds of overseas trade missions and produced considerable amounts of literature. Yet, substantial results remain elusive.

With the exception of northern novelties the geography and location of Alaska inhibits the establishment of a sustainable manufacturing economy. The cost of labor is high. The cost of infrastructure development is high. The cost of transportation is high. There are no end markets near Alaska's potential production centers. As of yet, there are virtually no marketable consumer goods that Alaskans can produce in volume which are capable of competing on the world market against similar goods produced in China, Thailand, or Taiwan.

> *"From an international-trade perspective, perhaps the greatest difference [between Alaska and Lower 48 states] is that Alaska has virtually no manufacturing base."* - Robert Poe[24]

There is a significant responsibility placed on those who would encourage small, young Alaskan companies to engage in the volatile, unforgiving game of international trade. Two Alaskan companies claimed as trade successes by the Division of Trade and Development[25] have suffered from the realities of foreign market instability and the high cost of engaging in overseas competition. A small clothing design company cited by the Division ceased selling to Japan because of the burden it placed on their domestic sales capability. A seafood marketer in Southcentral Alaska is on the brink of collapse due to the Asian market downturns. The lesson is that success needs to be measured over the long-term, not in episodic events.

Alaska's current economic strength lies in its natural resource reserves and its proximity to Pacific Rim energy and seafood markets. As previously noted, the companies involved in these profitable foreign markets are the least in need of State assistance. With this reality in view, expending State monies to stimulate overseas exports of natural resources to Japan and Korea amounts to "gilding the lily." In contrast to the Division of Trade's focus, the future for homegrown Alaskan businesses lies in the *worldwide* delivery of trade and services, including the lower 48. An Alaskan company that is internationally trade capable with a product or service in demand can find all the assistance and expertise necessary in the private sector. In fact, it has been said that an entrepreneur who can not, or will not, afford international business consulting, is not prepared for the international market.

Focusing Alaska's Export Assistance

The Alaskan businessperson interested in learning more about International trade issues and opportunities is confronted with a confusing array of choices.

- The Division of Trade and Development
- Alaska Industrial Development and Export Authority
- American Russian Center
- Alaska State Chamber of Commerce
- World Trade Center
- Small Business Development Center
- U.S. Commercial Service
- Export Council of Alaska
- Small Business Administration

In the face of such a daunting matrix of "services" it is no wonder research[26] indicates many Alaskans interested in overseas trade seek the assistance and expertise of friends, family members and the private sector. At least those sources offer one-stop potential.

It is out of this amalgam of state and federal programs that state policymakers must forge a unified, focused State program that dovetails the offerings from the private sector.

Creating a Client Responsive Program

As discussed earlier, the absence of salient performance measures leaves both the Division and policymakers in an information vacuum. Programs are initiated with little or no substantiated demand from the private sector. While the Division has made good faith efforts to establish ways to measure its effectiveness, the free market has already established the decisive test: are businesses willing to pay for the services or information offered?

Research requests, trade mission assistance and contacts that generate business activity will be gladly paid for by any business serious about international trade. Indeed, the U.S. Commercial Service and the World Trade Center have developed highly effective assistance organizations based on the fee-for-service principle. It is important to the growth of new business that essential startup information and basic services be available at affordable rates. Once a fee schedule has been established that respects the needs of both small and large businesses, the validity of business assistance activities may be easily evaluated based on income from each service. While complete cost recovery may not be practical in all instances, more valuable will be the information conveyed by business spending patterns.

Implementing this transition must be a united effort of the legislative and administrative branches of government.

Harnessing Existing Private Expertise

The Department of Commerce could expend tens of thousands of dollars and take years to research, propose and actually implement a program that was truly responsive to the real needs of Alaska's business community. Assuming that the Department could agree on a cohesive strategy, experience has shown that unless the program is structured to expand and contract with the actual need for service, soon the State will be burdened with yet one more deficient bureaucracy.

Research indicates that of potential exporters 89.5% would turn to the private sector for overseas business expertise.[27] With such an overwhelming preference among those businesses the private sector, common sense argues that the State follow their lead instead of reinventing the wheel.

The Gap

Successful international trade results should be measured by the value of contracts between businesses. Though government is integrated with business in some countries, under our system, government must remain distinct from business in order to maintain evenhandedness and avoid the practice of favoritism toward a particular business. Information and contact referrals are the most valuable services our state offices are allowed to provide. A service made available to one business must be made available to all.

A gap exists between the services the state is allowed to provide and the ingredients necessary to consummate a business contract. Entrepreneurial aptitude is important in the business milieu. It is not a trait included in the job qualifications for a state trade representative. Without a "nose for a deal," a financial incentive, binding authority of any kind, nor accountability for risk taking, it is doubtful that public employees can play a meaningful role in achieving international business contracts.

Our principle Asian opportunities were created and are well-maintained by the private businesses that profit from them.

International Trade Representatives

However, through our government-to-government role, it may be possible to encourage the establishment of a cadre of trade brokers from foreign countries who would live in Alaska. They would become expert about Alaskan business and conduct the entrepreneurial activities necessary to make business happen. They could be funded by whatever combination of private and government funds they can arrange from their own country. They would endure only as long as their patron deems their results worthwhile. Alaska's role could be to provide some limited subsidy for communications, office space, translation or other services that could be partially donated from the private sector. Mutual government involvement would be the verification of business credentials and to provide some de minimis certification that the trade representative is in good standing with the government.

If Alaska is going to compete for international business with British Columbia, Washington, California, and other power houses in the lower 48, we must consider new approaches to cementing business relationships. Representative John Cowdery outlined this approach in meetings with executives in Taiwan, Korea and Alaska. Responses have been enthusiastically positive. A concerted effort from Alaska is in the waiting.

A One-Stop Export Assistance Model

In over a decade of expenditures, the State of Alaska has made numerous well-meaning attempts to act as a catalyst for Alaskan businesses in the international trade arena. For all of these efforts, expenses and programs, the results are disappointing at best. While the agencies desperate for funding can conjure up a few anecdotal "success" stories, the reality is that the State of Alaska has spent large sums of money with the barest of results. Misassumption and illusory visions of Alaska as a major export power in the world market are the primary causes of failure. Additionally, the State's "obsolete" Pacific Rim focus and scattering of assistance resources has contributed to the diffusion of effectiveness in state programs.[12]

Throughout the review of materials, services and programs, one organization stood head and shoulders above the rest; the World Trade Center. They have a structure of client support which insures responsive, dynamic service in-tune with the needs of their clients. They operate entirely on funds raised in the private sector, or earned from contracts with government. They offer a comprehensive range of services for membership fees that start at just three hundred dollars. They succeed despite reaction from the State's Division of Trade that ranges from indifference to hostility.

An Alaskan company that is internationally trade capable with a product or service in demand can find all the assistance and expertise necessary in the private sector.

It has become apparent that the State of Alaska could save hundreds of thousands of dollars, consolidate all State international trade assistance activities into a one-stop location, and insure a higher level of service to potential Alaskan exporters by establishing the World Trade Center as the official State Export Assistance Center.

Presently there are too many turf wars among the players. The governor favors state control with directly funded state programs. Representative Cowdery and many other legislators favor contracting for private sector services, like the World Trade Center, and retaining only protocol and trade mission coordination in the governor's office.

A simple formula of funding should be developed which insures a long-term support framework for the World Trade Center based upon actual demand for services. Demand may take the form of services needed by the State executive and legislative branches. It may also include certain, defined, services to Alaskan small businesses. It should be recognized that all state provided services are direct subsidies and must be evaluated against a measure of public benefit.

As a condition of support, the World Trade Center should be asked to establish a solid working exchange with the United States Commercial Service. An effective relationship with the USCS would prevent the duplication of market research and foreign office services that now drain Alaska's assistance resources.

Export Finance Expertise

The legislature's research highlighted one service the State has not provided that would be greatly appreciated by the Alaskan business community: an export finance counselor. The Senate/House Interim Task Force on International Trade Resolution states in part,

> *"FURTHER RESOLVED that the information services provided should include specialized export finance information, which probably will need to be provided through an experienced specialist;. . ."*

To date, this call has been unheeded. AIDEA's report seems to indicate that additional expertise isn't necessary. Our foreign trade community needs to come together on this issue.

In keeping with the "one-stop" philosophy, the World Trade Center is an ideal seat for an export finance advisor. As the demand for this expertise will rise and fall unpredictably, this position would most efficiently be staffed on a contractual basis.

International Trade is not for the faint of heart.

Establishing the World Trade Center as the State's sole source for international trade assistance would bring

Alaska's business community the greatest benefit, at the least State expense.

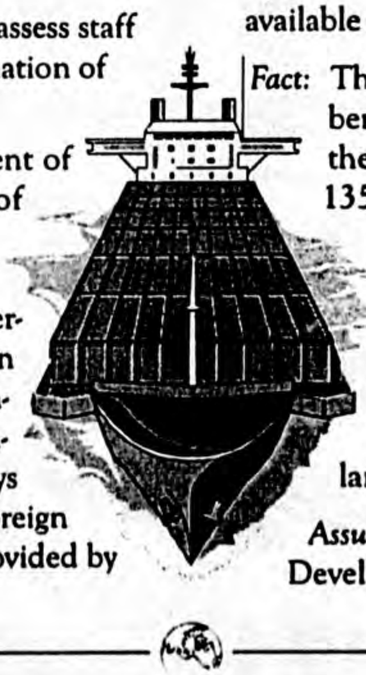
Reinforcement

In order to review the findings of the *Private Sector International Business Needs Assessment*, the Senate President and House Speaker appointed an Interim Task Force on International Trade in 1996. The task force reviewed the survey findings and Mr. Lane's evaluations and made a series of recommendations. Their report, titled, *"International Support Network Restructuring Recommendations" (see appendix F)* outlines a number of program enhancements and reductions that parallel the needs described above.

Prescriptions deserving continued discussion include:

- Direct the Division of Trade to discontinue all export assistance services (including export counseling, exported related publications, etc.)
- Eliminate funding for DTD office in Seoul, Korea.
- Eliminate funding for DTD office in Tokyo, Japan.
- Direct DTD to reclassify all employees as classified.
- Direct DTD to strategically reassess staff qualifications based on elimination of export assistance services.

In February of 1996, the Department of Commerce responded to many of these points, in some cases with resistant language. Using the words "critical mistake", "undercut", "undermine" and "deeply troubled",[28] then Deputy Commissioner Sedwick countered the most substantive recommendations of the task force with essays on the "critical role" played by our foreign offices and the essential services provided by the Division of Trade and Development.



Yet, research and critical review indicate that substantive change is imperative to the well being of Alaska's international trade network. All indicators point to the need for a change in direction. Implementing this transition must be a united effort of the legislative and administrative branches of government. Effective customer interface and responsive program development will not occur without positive support from the legislature and substantial initiative from the Department. In view of the sharp disparity between the Interim Task Force's recommendations and the convictions of the Department of Commerce, it is appropriate to move the discussion forward by addressing these core differences.

All indicators point to the need for a change in direction.

The assertions of program necessity made by the Department rest on three false assumptions.

Assumption: The Division of Trade and Development offers unique information.

Fact: Trade information and market analysis are available from the U.S. Commercial Service, U.S. Customs, and the World Trade Center.

Assumption: The three foreign offices supported by DTD are the only overseas contact points available to Alaskans.

Fact: The World Trade Center has five member service offices in Japan alone, while the U.S. Commercial Service offers over 135 foreign outlets. If that were not enough, Japan, Korea, Mexico, Canada, Norway, Finland, France, Sweden, Germany, Great Britain and the Russian Federation offer trade assistance and market information services through their respective Consular Corps, in *Alaska*. (see appendix I)

Assumption: The Division of Trade and Development's programs are vital to the health of Alaska's international trade.

Fact: According to international trade consultant Timothy Lane, the vast majority of Alaska's export income flows through long-established trading channels in Seattle and elsewhere, negotiated by private sector expertise, paid for through out-of-state money connections and maintained by large and diverse corporations. In fact, sixty percent of the export trade claimed by the Division to be a cornerstone of their success merely lands at Anchorage International Airport and takes off again. In one simple sweep the legislature could trim hundreds of thousands from the State budget while creating a unified, focused source of effective, non-redundant business assistance services. In doing so the legislature would send a clear message of support and responsiveness to the Alaska business community and create a support framework in-line with the twenty-first century's global marketplace.

In fact, sixty percent of the export trade claimed by the Division to be a cornerstone of their success merely lands at Anchorage International Airport and takes off again.

What has developed is reminiscent of the chicken and the egg. The Division of Trade and Development operates under the naïve presumption that Alaska's international employers need the Division's services to succeed. The reality is that private corporations have seen an opportunity, taken a risk, and reaped the rewards. Rewards which the Division then publishes as an export statistic establishing their worthiness for funding.

In summary, the Division of Trade and Development asserts that closing the foreign offices would result in the following dangers:

"Jeopardize key Asian markets"[29]

- Our principle Asian opportunities were created and are well-maintained by the private businesses that profit from them.

"Ignore private sector demand"[29]

- There exists no meaningful, unique, private sector demand for Division of Trade services. The little private sector demand that exists may be well met by private and Federal programs already in place. Division of Trade's real strength lies in its ability to generate support from its political allies on behalf of their own programs.

"Cut off vital trade and government contacts"[29]

- Some Alaskan presence and ties will be lost. The adjective "vital" is misplaced. Those that generate the vast majority of Pacific Rim receipts maintain their own array of trade and government connections. The DTD needs to realize that its position, its government status, and its very real funding limitations, will never allow the Division of Trade to be all things to all people in foreign trade. Only by applying the state's limited resources to the more focused goals of trade mission and protocol assistance, will the state become the channel for international success that it aspires to be.

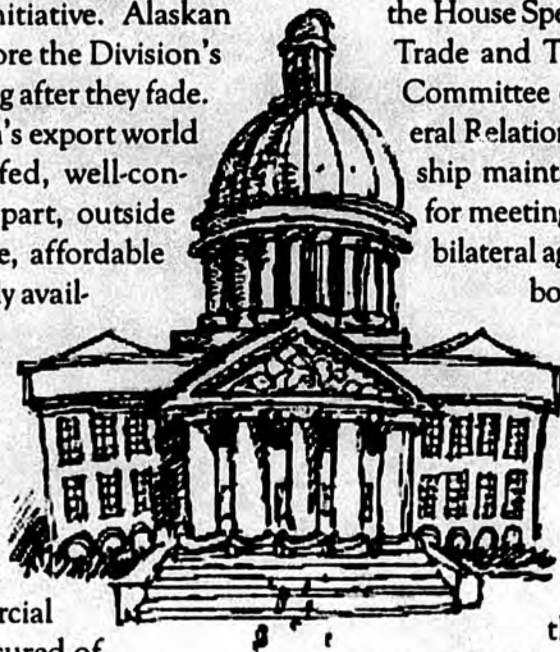
"Undercut efforts to refocus overseas trade program,"[29]

- Cutting these offices is the rational and overdue "refocusing" effort.

The Division of Trade and Development has worked hard to establish the programs and offices now in place. Unfortunately, their techniques and focus have been ill-guided. The time has come to trim the Division's dated programs and refocus the role of State involvement. Real needs and opportunities exist in the realm government-to-government relations, advocacy for Alaskan interests under attack and the promotion of the State as an attractive investment target.

Summary

International business success is rooted in private sector expertise and initiative. Alaskan success overseas existed before the Division's programs and will thrive long after they fade. The major players in Alaska's export world are well-funded, well-staffed, well-connected and, for the most part, outside owned. There are effective, affordable international services readily available through the World Trade Center and the U.S. Commercial Service. With a relatively minor contribution to the World Trade Center and the fostering of strong working relationships with the U.S. Commercial Service, Alaskans can be assured of streamlined, robust international business assistance service for years to come.



The Legislature is not immune from criticism about redundancy in international trade activities. The House has two separate committees dealing with international trade issues. In addition to the House Special Committee on International Trade and Tourism, and the House Special Committee on World Trade, State and Federal Relations, the Senate and House leadership maintain separate staff and programs for meeting the obligations of protocol and bilateral agreements with foreign legislative bodies.

Due to cooperation among the leadership and the committee chairpersons, the appearance of redundancy has been greater than the reality. However, in order to eliminate confusion and invoke the same streamlining for the legislature that is herein preached for the executive branch, it will be recommended by Chairpersons, Representative John Cowdery and Representative Ramona Barnes, that the 21st Legislature should form a single house committee for international affairs.

* * * * *

EPILOGUE

"To make no mistake is not in the power of man; but from their errors and mistakes the wise and good learn wisdom for the future." - Plutarch

In Tom Morris's book, If Aristotle Ran General Motors,[a] he adopts the Aristotelian view that four transcendent values have been present in all cultures throughout history. They are Truth, Goodness, Beauty and Unity. Mr. Morris says these values reinforce each other and cannot be achieved absent each other.

Further, Mr. Morris develops the rationale that certain organizational models foster these transcendent values while others inhibit them.

He describes the Competitive Organization, the Comparative Organization and the Collaborative Organization. Then he relates certain behavioral characteristics that are manifest in each model.

The Competitive Model is characterized by adversarial thinking. At the other end of the continuum, the Collaborative Model is characterized by synergism and partnering.

By the lights of many who are involved in Alaska's international trade activities, we have an abundance of resources chasing scattered notions of success. "Synergism and partnering" would go a long way toward improving the results we get from our public expenditures.

Change is needed. Organizations change for better or worse just like people do. They can change as a result of conscious decisions, or drift along like bubbles...

a - *If Aristotle Ran General Motors; The Soul of New Business*, Thomas V. Morris, Henry Holt & Company, New York, 1997

Footnotes

1 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, pages A-1, A-2

2 - *Agency Evaluation Recommendations*, Mr. Timothy Lane for the Alaska Legislature, 1995, page 2.

3 - Resolution of the Interim Task Force on International Trade, 1996, See Appendix "C".

4 - 1996 International Trade and Tourism Committee Report on Tourism, Recommendations 1(b).

5 - *Summary Report on Tourism*, Representative Beverly Masek, ITT Committee past Chair, pages 2-3.

6 - 1996 International Trade and Tourism Committee Chair recommendations, point #3.

7 - Alaska Visitors Association, *Millennium Plan*, as submitted to the 20th Legislature, 2nd session.

8 - *Alaska: Guide to Export Assistance*, Division of Trade and Development, State of Alaska, page 14

9 - *Establishing a Business in Alaska*, Division of Trade and Development, State of Alaska, back cover.

10 - Per personal communication with Ms. Pricilla Wohl, DTD Trade Specialist.

11 - Ibid.

12- *Agency Evaluation Recommendations*, Mr. Timothy Lane for the Alaska Legislature, 1995, page 4, 5.

13 - Ibid, page 10

14 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, (Of the 271 respondents to the *Private Sector International Business Needs Assessment* only 17 businesses (6.5%) indicated that they did or would use the Division of Trade and Development for assistance.)

15 - *AIDEA, 1997 Annual Report*, inside cover.

16 - http://www.acib.uaa.alaska.edu/arc/missionstat.htm

17 - *Alaska: Guide to Export Assistance*, Division of Trade and Development, State of Alaska, page 17

18 - (http://www.alaska.net/~export/)

19- *Alaska: Guide to Export Assistance*, Division of Trade and Development, State of Alaska, page 34

20 - Ibid, pages 2-3

21 - *The International State, Crafting a Statewide Trade Development System*, Carol Conway and William Nothdurft, The Aspen Institute, 1996, pages 96-97

22 - *Agency Evaluation Recommendations*, Mr. Timothy Lane for the Alaska Legislature, 1995, page 2

23 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, Table VII-E.

24 - Robert Poe & Associates, "*Financing Alaskan Exports*" prepared for AIDEA, page 32

25 - February 7, 1996 Division of Trade and Development Discussion Paper, Section B (see appendix G).

26 - *Private Sector International Business Needs Assessment*, by the World Trade Center for the Alaska Legislature, 1995, pages B-16, B-21

27 - Ibid, Table VII-B

28 - February 7, 1996 Division of Trade and Development Discussion Paper (see appendix G).

29 - Ibid.

APPENDICES

A: *Private Sector International Business Needs Assessment* (1995), an exhaustive study of the needs of Alaska Businesses conducted by the World Trade Center under contract to the Alaska Legislature.

B: *Agency Evaluation Recommendations* (1995), an analysis of the *Needs Assessment* by International Trade Consultant Timothy Lane under contract to the Alaska Legislature.

C: Resolution of the Interim Task Force on International Trade (1996), spells out the conclusions and recommendations of the Task Force in light of the Needs Assessment and Mr. Lane's report.

D: *Alaska Top Ten Export Guide*, Division of Trade and Development, State of Alaska.

E: *Alaska Guide To Export Assistance*, Division of Trade and Development, a comprehensive Department publication which outlines all of the business assistance services available in Alaska

F: Interim Task Force on International Trade, *International Support Network Restructuring Recommendation Recommendations*, specific funding allocation recommendations of the Task force in light of the Needs Assessment and Mr. Lane's report.

G: February 7, 1996 Ms. Sedwick letter to International Trade & Tourism Chairs, the Department's response to the Task Force's recommendations.

H: International Trade and Tourism Committee Meeting Excerpts which highlight the findings of the Needs Assessment.

I: Alaska Consular Corps Table.

Note: Appendices are in the possession of the House Special Committee on International Trade and Tourism until the end of the 20th Legislature at which time they will be transferred to House Records, 130 Seward street, Suite 211, Juneau, AK 99801