

LEG. FINANCE - BILLS 1983 - 1984 1964

CSHB 650 cont. 1969

I - PURPOSE AND METHODOLOGY

A. Purpose and Scope.

The primary purpose of this report is to provide the Alaska House of Representatives with a feasibility study for the establishment of an Alaska trade office in Korea, as well as a set of guidelines and recommendations, including proposed goals and objectives, for the establishment, staffing and operation of such an office.

The scope of this feasibility study is limited to the following specifically requested topics and areas:

1. Outlining the current structure of the Alaska State Asian Office (ASAO) in Tokyo, including staffing and costs of operation;
2. Analyzing the operation and functions of the ASAO; evaluating its effectiveness and examining the option of extending its operation to include the rapidly increasing trade relations and activities in Korea;
3. Reviewing the activities of other states that have established trade offices in Korea;
4. Providing a history of Alaska-Korean trade efforts and activities;
5. Outlining the strongest areas of Korean interest in Alaska and examining the potential economic benefits to the state from increased trade with Korea and from increased Korean investment in Alaska;
6. Synthesizing the materials and information gathered from Korean business people and governmental officials, especially information regarding Korean government and business practices and protocol; and
7. Setting forth and discussing the main reasons for the desirability and feasibility of establishing a separate Alaska trade office in Korea and outlining a plan for the setting up, staffing and operation of such an office.

B. PROCEDURES FOLLOWED

This study was accomplished in three phases. The first was aimed at obtaining ideas and information from various Alaskan business people and public officials regarding the establishment, functions, goals and policies of an Alaskan trade office in Korea. The organizations contacted in this regard included the Alaska-Korea Business Council (AKBC), and the Anchorage offices of the U.S. Department of Commerce, the International Trade Administration, and the Resource Development Council for Alaska, Inc. Numerous Alaskans presently involved or contemplating being involved in trade with Korea were also interviewed.

The second phase was conducted in Seoul, Korea. Interviews were held with Korean government and business leaders to obtain their ideas and information regarding the establishment of an Alaskan trade office in their country. Among the government agencies, trade associations and business groups contacted were the following:

- Korean Foreign Ministry;
- Korean Ministry of Commerce and Industry;
- Economic Planning Board;
- National Tax Administration;
- Korea-U.S. Economic Council;
- Korea Trade Association (KOTRA);
- Samsung Company, Ltd.;
- Hyundai Company, Ltd.;
- Kukge-ICC Corporation;
- Daewoo Corporation;
- Kolon Corporation;
- Namju Development Corporation;
- Various middle-sized and smaller Korean business entities;
- Seoul office of the U.S. Embassy, Commercial Section;
- Seoul office of the U.S. Chamber of Commerce.

The third and final phase of this study involved the synthesizing of all the data collected in the first two phases, focusing on the areas specifically requested by the Alaska State House of Representatives and as set forth in the preceding subsection.

C. General Results.

The contacts that were made and the interviews that were conducted in both Alaska and Korea revealed a remarkable degree of interest from all sources. The amount of candid and positive input from Alaskan and Korean business people and government officials was very encouraging, but somewhat unexpected in light of what appears to have been a very limited amount of communication and sharing of detailed business and trade information between Alaska and Korea in the past.

II - HISTORY OF ALASKA-KOREAN TRADE

A. Limitations.

There is very little documentation available that specifically deals with past and current trade activities between Korea and Alaska. Most of the information obtained for this study was the product of interviews with individuals familiar with , or was derived from publications that addressed only small portions of the overall picture or included information on Korea that was only incidental to other topics. As a result, it is impossible to present an accurate, comprehensive and up to date summary of Alaska-Korea trade activities. Thus, what follows is only a general overview with a capsule history and figures on the recent level of trade, as to which some examples and statistics were available.

B. Capsule History.

Until very recently direct trade between Alaska and Korea has been relatively sparse compared to trade activities between Alaska and Japan, for example.

Alaska-Korean trade activities have generally involved exporting Alaskan natural resource products, particularly fish, timber and coal, to Korea. In addition, some Korean firms have supplied industrial materials for Alaskan capital projects, and in a few cases Korean firms have been awarded contracts to construct all or substantial portions of such projects. In more recent years, Korean firms have participated and shown a strong interest in continuing to

participate in joint ventures with Alaskan businesses, especially those involved in natural resource extraction and development.

C. Level of Trade.

As to the specific level of Alaska-Korean trade activities, according to a table in the 1980 Alaska Statistical Review listing the value of Alaskan imports and exports by nation for selected years between 1970 and 1979, in 1970 Korea ranked 4th as a recipient of Alaskan exports, behind Japan, India and Canada. In 1979, Korea again ranked 4th, this time behind Japan, India, and the People's Republic of China. Japan was clearly the dominant export market for Alaska, receiving over 80% of all Alaskan exports, while Korea does not appear to have been a significant market during the 1970's.

According to statistics from the Alaska Department of Commerce and Economic Development on, Alaskan exports to East Asian markets for the years 1978 through 1982, Korea was consistently ranked behind Japan and the People's Republic of China until 1982, when it surpassed the latter. However, it should be noted that in 1982 the sale of 2 reconditioned jet aircraft to Korea accounted for over half the total yearly figure.

It should further be noted that the statistics mentioned above reflect only exports that were shipped directly to Korea from Alaska. Many Alaskan products have been and are being exported to Japan, whose trading companies then sell

them to Korea. Furthermore, some Alaskan products have been and are being transported to the contiguous United States before being shipped to Korea, and no statistics are available for all these types of transactions.

III - OTHER STATES' TRADE OFFICES¹

According to a 1980 survey, 33 states were represented in that year by trade offices in 66 foreign countries. This had increased from 20 states in 1977.² While some states may have added or closed foreign trade offices in the last three years, international trade staff for such national organizations as the National Association of State Development Agencies (NASDA), the National Conference of State Legislators (NCSL), and the Council of State Governments (CSG) indicated that the level of activity is about the same currently. NASDA is in the process of compiling an updated list of state foreign trade offices, which should be available later this year.

In almost all cases, the foreign trade offices are associated with their state's economic development agency. In a few cases, the office represents the state's agriculture agency, and in some states different agencies share an office. In some cases, rather than representing a state, an office will represent a port authority or some other regional entity. For the purposes of our discussion, we have not included any state offices which are limited to promoting tourism, although some state trade offices do serve this function in addition to other duties.

¹-----
¹This section of the study was provided by Jonathan Sherwood of the House Research Agency.

²National Governors' Association, *Export Development and Foreign Investment; The Role of States and its Linkage to Federal Action*, 1981, p. 22.

Foreign trade offices are most frequently staffed by personnel employed directly by state government, as is the case with Alaska. In many cases, these are regular employees of the parent agency, who are routinely rotated to their home state. However, some states contract with one or more foreign consultants to represent their state. In addition, several western states operate the Old West Commission, which has had joint trade offices in both Europe and Asia.

Foreign trade--and consequently the activities of state foreign offices--is often classified into two broad categories: (1) investment; and (2) trade. Investment, also called reverse investment or foreign investment, refers to business transactions in which foreign companies invest capital in the state, frequently by opening a manufacturing plant.

Trade, the second kind of activity, involves the exporting of goods to foreign markets. According to Marsha Clarke, with NASDA, state foreign trade office activity is fairly evenly divided between the promotion of these two functions, at least on the global scale. State offices in developed countries like Japan may place a higher priority on encouraging investment; in developing nations, state offices may place a greater priority on expanding markets, as these countries are less likely to have firms interested in developing operations in the U.S.

The trade offices of other states also collect trade intelligence for their state. However, according to Ms. Clarke, it is difficult to identify how much time is devoted to this activity, as it tends to be performed in conjunction with the office's promotional activities.

According to a 1983 study prepared for the Alaska Legislature by Dupure and Associates, once a state foreign office has made contact with a foreign firm interested in doing business with the U.S., the state's home office provides the U.S. business contact.

The Dupure report and other articles on foreign trade offices emphasize the importance of strong direction and support for state foreign offices from their parent agency. The home office must be able to identify the appropriate business contacts for foreign business interests who contact the state's foreign office, and to identify which in-state businesses expressing interest in exporting their products are serious candidates for foreign trade.

Ms. Clarke stated that the typical cost for a foreign trade office would be between \$100,000 and \$300,000. She noted that the upper limit generally provides for a large operation, but also cautioned that Tokyo was substantially more expensive than other locations. A 1982 survey indicated that the number of employees per office varied from 1 to 8, with 2 or 3 employees being the most common

staffing pattern. The largest number of employees in the Japanese offices surveyed was six.

Asian Offices.

According to Marsha Clarke, her most recent information shows that 19 states now have foreign trade offices in Japan.³ In addition, California, which does not have a state office there, has several port authorities, including Long Beach and Oakland, which operate offices in Japan. Most of these offices are regional in scope; however, some of the offices are intended to deal strictly with Japan. States which currently have offices in Japan are listed below:

| | | | |
|----------|-----------------|----------------|----------------|
| Alabama | Indiana | Michigan | Pennsylvania |
| Alaska | Kentucky | Missouri | South Carolina |
| Florida | Louisiana | New York | Virginia |
| Georgia | Maryland | North Carolina | Washington |
| Illinois | Massachussettes | Ohio | |

In addition, Illinois has an office in Hong Kong and Missouri has an agriculture representative in Singapore. None of the individuals we contactaed was aware of any state with an office in Korea.⁴

According to Ms. Clarke, state foreign offices in Japan usually place much more emphasis on encouraging foreign investment and little emphasis on increasing exports. Ms. Clarke explained that this is a result of Japan's long-

³-----
³This compares with 14 states in 1980.

⁴We received an excerpt of a recently published book on foreign trade office activity which refers to a possible office in Korea. The excerpt does not provide detail on the status of the office; it is not clear whether an office has been opened or was merely planned.

standing trade restrictions on the importation of manufactured goods and agricultural products. Traditionally, these have made it very difficult for the U.S. businesses to export goods to Japan. While some of these restrictions have been lifted in recent years, Ms. Clarke stated that the direction of states' trade office activities in Japan have not changed significantly. The Dupere study also found that most state offices in Japan devote more time to promoting Japanese investment in the U.S. than to promote trade.

IV - KOREAN GOVERNMENT, BUSINESS AND CULTURAL PRACTICES AND PROTOCOL

A. Interrelationship.

There is a very close interrelationship between Korean governmental, business and cultural practices and protocol, the degree and extent of which is completely foreign to most Americans. This chiefly stems from the fact that modern Korean industrial society is founded on close cooperation between government and private sectors. Government agencies are responsible for establishing and implementing short and long term goals that set the tone for the private sector¹, and government agencies then openly and freely provide broad, efficient assistance to private enterprises willing and able to help pursue and fulfill the chosen goals.

The closely knit ties between government and private sectors regarding economic and industrial matters is interwoven, overlapped and, in essence, held together by unique cultural practices and rules of protocol and etiquette.

B. Basic Principles.

Like all other countries, and even specific regions within a country, in Korea there are many peculiarities and practices that have come to be recognized as proper and correct etiquette in the business community, as well as in governmental and social circles. And although they may differ in form and vary with specific circumstances, Korean

¹The economic Planning Board (EPB), an agency within the Ministry of Commerce and Industry, sets and implements the economic and commercial plans, goals and policies for the entire country.

governmental, business and cultural practices and protocol are essentially based on certain fundamental principles which, to most effectively, efficiently and profitably conduct business in Korea, must be acknowledged, learned and adhered to.

The strongest and most basic principles of proper Korean etiquette and protocol are respect, courtesy and seniority. These are universal norms, but nowhere are they more strongly ingrained and adhered to than in Korea.

Furthermore, the concept of seniority does not merely refer to age, although that certainly is a valid consideration, but also applies to rank, status and relative position, with which Koreans are intensely concerned. Thus, it is equally improper to be overly courteous to someone of lesser social status, job position and age as it is to be curt and inattentive to someone of greater seniority.

For obvious reasons, this study cannot deal with all, or even most, of the specific practices and rules that apply to even the most basic of situations. The examples that follow, however, can serve as a general introduction and guide in this area.

C. Specific Customs.

Korean business people and government officials are very modern and westernized in their attire. They tend to dress formally and conservatively, wearing suits that are of traditional colors and muted patterns, with white shirts and subdued ties. The wearing of loud colored, leisure type

clothing and accessories is generally considered in poor taste when attending to business and governmental affairs, even if after normal business hours.

Koreans have an extremely strong work ethic that they are very proud and conscious of. It is bad form, even in jest, to condone the wasting of working time and resources. Long lunches or work breaks are frowned upon unless warranted by a special occasion or at the insistence of a higher ranking host, and it is equally frowned upon to show up too early for a business appointment, as it is considered rude and insulting to be more than a few minutes late.²

Normal handshakes are the accepted form of greeting. Bowing is usually reserved for greetings between Koreans themselves and westerners are not required or expected to engage in that particular custom.

The traditional Korean way of writing names is to place the family (or last) name first, followed by the first and then the middle name. This tradition is slowly changing, however, and many Koreans now use the western method of first, middle and then last name. It is proper etiquette to refer to an individual by his or her family (last) name preceded by Mr. or Mrs. It is not appropriate to use first names unless specifically requested by the individual involved.

²Actually, if one has a choice in the matter, it is better to be a few minutes late than early because this is apt to waste less of your Korean host's time.

At the first meeting with a Korean business person or government official, it is appropriate and expected to let the host initiate and lead the conversation and the meeting. First meetings are usually short and the Korean host will most often focus on non-essential matters. In-depth discussions about vital topics are normally reserved for later meetings, but even then it is not at all unusual for a Korean host to somewhat abruptly change the subject. This normally indicates that the former topic of discussion is closed for that meeting, and it is best not to insist on discussing that particular matter further.

As a general rule, Korean business people and government officials will not complete a transaction of any significance at the first meeting. The main reason for this is that they put a great deal more emphasis than Americans on establishing a personal rapport with the other party before entering into serious or final discussions and negotiations.

D. Culture and Arts.

A recent (December, 1982) publication of the Korean Ministry of Culture and Information titled Looking Ahead contains (at pages 56 and 57) the following colorful description of Korean culture and arts:

Korean culture has a special flavor all its own, a unique blending of change with traditions stretching back some 5000 years into the mists of mystery and myth, of animistic, Buddhist, and Confucian beliefs. Korea is a kaleidoscope of sights and its unique taste can be found in the resplendent rainbows of "tanchong" that color the palaces

and temples throughout the country; the lively motions of an ageless farmers dance; the richly vibrant sounds of exotic musical instruments; the slow, subtle movements of the shoulders, hands, and neck of the court dancers; and the soft, curving roof lines floating ever so gently heavenward.

Each dynasty produced its own unique artistic forms, not to mention the world's first moveable metal printing types some 220 years before the Guttenberg invention, and the Hangul alphabet, perhaps the most scientific system of writing in general use in any language.

Korea's arts are colored with symbolism reflecting a people who wanted to be happy, have progeny, live long, and enjoy good luck. Even today, furniture, linens, clothes, all accessories including hairpins, outside walls, gates, chimneys, etc., are adorned with the five elements, ten symbols of longevity, four directional animals, twelve animals of the oriental zodiac and propitious adeographs; a spicy mixing of shamanistic, Taoist, and Buddhist beliefs.

Much pottery and many paintings, especially folk paintings, are rather whimsical, reflecting the artist's own sense of humor and playfulness. While academic painters tended towards almost monochromatic landscapes conveying an impression of serenity and oneness with nature, the charmingly naive and unpretentious folk paintings reflect the actual life of the people.

Ceramics, especially the blue-green Koryo celadons produced more than a thousand years ago, are by far the most famous class of the nation's art objects. The Yi Dynasty forsook the delicate and intricate to produce simple, robust forms of an unpretentious and spontaneous style. No matter which of nature's shapes are suggested. Korean potters created some of the most beautiful elongated curves ceramic history has known, curvaceous lines soaring with energy, lines that were perfected and made more approachable and warm.

So too is Korean dance warm, earthy and alive with a character all its own. Unlike other Asian dances, the dance in and of itself never tells a story but strives only to communicate a mood. Stepped by silk-clad court ladies the ancient court dances are characterized by dignity and grace. Not so the folk dances farmers improvised

during planting and harvest times, a slithering of airborne paper streamers from the crown of gyrating headdress, while acrobatics mounting in a crescendo of frenzy, a fleeting flash of straw sandals, shuffling in the dust, competing with complex cross rhythms of drum, gong and bugle.

Music, especially court music, is both nasal and shrill; slow long-held notes dissolving into lacy arabesques punctuated by the single thump of a drum, one pungent stroke of gong, chime or cymbal. Outlining vast arching melodies, the tones sound strangely piquant.

Musical events, especially folk ones, are often punctuated by boisterous cries of delight and encouragement from the audience as traditionally, the enjoyment of these art forms is in the participation and not merely the watching.

E. Sense of National Identity.

Modern Koreans are extremely conscious of and concerned with projecting, maintaining, enhancing and getting outsiders to acknowledge and accept their unique national identity. To say that Koreans are not pleased or even that they are insulted when associated or stereotyped or analogized with other oriental cultures, especially the Japanese, is to vastly understate the matter. At the very least, such behavior is considered a serious breach of etiquette and to most Koreans signifies a disrespectful and insulting ignorance of oriental cultures and history.

This is a very important point for any American who desires to have smooth, successful and profitable dealings with Korea to constantly keep in mind. Its significance cannot be overly emphasized.

For example, in the course of conducting this study in Korea, it was extremely difficult to even raise, much less

seriously discuss, the option of extending the operation of the ASAO office in Tokyo as a viable alternative to establishing a separate trade office in Korea. That particular notion of having to deal with outsiders through the Japanese carries a strong and extremely negative stigma among Korean business people and government officials who unanimously share in the goal of reversing the virtually complete economic control and exploitation that Japanese trading companies exerted for so many years over the Koreans.³

³-----
This strong sense of national identity and feverish need to disassociate themselves from Japanese dominance underlies the Koreans' notorious aggressiveness and competitiveness in the area of international trade, which in turn provides the basis for their dramatic successes in that area.

V - KOREAN INTERESTS IN ALASKA

A. Korean Interests Generally.

Because of Korea's lack of natural resources, it must secure stable and longterm supply sources elsewhere. Thus, Alaska's natural resources are considered a prime source of acquisition by the Koreans, who are also interested in marketing their goods and services in Alaska. This study will highlight the most serious areas of interest the Koreans have in Alaska, which are as follows:

1. Potential Acquisitions in Alaska:
 - a. Coal and hardrock minerals;
 - b. Oil and petroleum products;
 - c. Liquified natural gas (LNG);
 - d. Fisheries;
 - e. Timber resources;
 - f. Agriculture.

2. Potential goods and services to be provided to Alaska:
 - a. Heavy industrial machinery, equipment, tools and materials;
 - b. Construction and infrastructure development projects;
 - c. Joint ventures in various areas, especially those involving natural resource development;
 - d. Airline passenger and cargo services.

B. Governmental Policy.

The Korean Ministry of Energy and Resources strongly encourages private businesses to get involved in the development and purchase of natural resources from foreign countries with which, as a part of the general plan, trade and commerce can also be implemented or increased. To the Koreans, the key to resource development abroad lies in securing a stable supply of energy sources on a long term

basis. Since this requires a great deal of capital, it is the recommendation of the Korean Ministry of Energy and Resources that energy exploring and consuming firms engage in natural resource development in foreign countries by way of consortiums and joint ventures.

C. Coal and Strategic Minerals.

Because of the oil shocks of 1972 and 1979, Korea has undertaken an aggressive program of increasing the uses of coal and nuclear power to supply its energy needs. Furthermore, the most recent trend has been to rely more heavily on coal than nuclear power, which has fallen into disfavor due to the escalating costs of nuclear power plant construction and the increased safety regulations and standards that must be established and implemented.¹

In 1980, a Korean corporation, the Sun Eel Shipping Company, Ltd., signed a long term (10 years) contract to purchase 7 million metric tons of coal from the Usibelli Coal Mine near Healy. In 1983, Sun Eel and another Korean company, the Korean Electric Power Corporation, further agreed to export 800,000 metric tons of coal annually from the Usibelli Coal Mine through the coal loading facilities that are presently being constructed in Seward.

¹-----
This information was obtained primarily from interviews and discussions with various Korean Government officials, including: the director of the American Division of the Foreign Ministry, J.J. Ryung, and his subordinate in charge of the North American sector, S.H. Kim; and the director of the American Trade Division of the Ministry of Commerce and Industry, S.H. Chang.

The Koreans are also involved in another coal development project through a joint venture between a consortium of Korean corporations called the Korea Alaska Development Corporation (KADCO) and Chugach Natives Corporation, Inc., who are the owners of the coal field being developed near Cordova. This Alaskan-Korean joint venture is named the Bering River Development Corporation and it has very promising prospects because the coal to be extracted is of higher quality, and value, than that from the Usibelli Coal Mine. However, the joint venture faces and has been dealing with a major problem in that the coal fields are located approximately 30 miles from the ocean and transportation and loading facilities need to be constructed.

D. Oil and Petroleum Products.

Even though, as previously mentioned, Korea is gearing up to decrease her oil dependency, it will be some time before her oil imports are substantially reduced. Korea currently purchases a little over \$6 billion worth of oil annually from the Middle East, which is a highly unstable and distant market. Thus, in terms of stability and logistics, it is very clear that Alaska would be a much better source of crude oil for the Koreans, who have consistently expressed an interest in purchasing, and becoming involved in the development of, Alaskan crude, and who are also very interested in being allowed to explore that possibility if and when the federal export restrictions are removed.

If a gas line is constructed, and if existing federal restrictions are removed, Korea would also be an ideal potential consumer of Alaskan LNG. Of course, the level of LNG, as well as crude oil, imports by Korea depends on a host of other factors, especially price. But the interest is certainly there,² and the Koreans' entry as a competitor among potential buyers and investors would be of obvious benefit to Alaska.

As to other petroleum products, several Korean corporations are presently considering importing various items such as unleaded gasoline, reformate and residual fuel oil.³

In conclusion, although Alaska-Korean trade in oil and petroleum products has not yet gotten off the ground, it clearly appears that Korea is a potentially good customer who is willing and able to participate in the infrastructure development that is necessary to market those resources.

E. Fisheries.

²-----
Although there appears to be some question about Korea's potential as an Alaskan crude oil and LNG purchaser due to its long term commitments to obtain those resources from other countries, virtually all of the corporate and government officials contacted in Korea expressed a keen interest in these areas. In this regard, see the notes of interviews conducted in Korea Attachment D hereto; and also see the January 10, 1984 letter from Samsung President J.H. Kyong, in Attachment C hereto, which states: "we have expressed our keen interests in the Alaskan LNG and petrochemical project when Mr. Hickel visited seoul (sic.) last December. To facilitate our efforts, Samsung is opening an Anchorage offices (sic.), beginning this January."

³This information was obtained from two officials of the Alaska-Korea Business Council (AKBC), Loren Lounsbury and Robert Breeze.

The export of Alaskan seafood products to Korea has been one of the largest items of trade in the past several years.

As far as fisheries and fish processing activities are concerned, until very recently foreign entities, including Korea, conducted entirely self-sufficient operations. The more recent trend, however, has been the formation of joint ventures between American trawlers and foreign processors. Korea has been very active in this trend and there is every indication that it will continue to do so and that the number of Korean-Alaskan joint ventures will rapidly increase.⁴

F. Agriculture.

Although in the past there has not been much agricultural trade between Alaska and Korea, there is an existing beef exporting operation near Homer and two large Korean firms have initiated a project in the Kenai area that entails the leasing of University of Alaska land for the raising and slaughter of cattle to be shipped to Korea.⁵

Some work is presently being done in the area of growing and exporting grain products from the Mat-Su Valley to Korea and other Pacific Rim countries. It appears that the success of this project largely depends on experimental research being

⁴-----
Thus, according to a memorandum dated January 17, 1984, from House Research agency analyst Jonathan Sherwood to Speaker Hayes' office, 8 of the 17 joint ventures approved by the North Pacific Fisheries Management Council in December, 1983, involved Korean firms.

⁵This information was also obtained from AKBC members Lounsbury and Breeze.

done at and in conjunction with the University of Alaska on the development of new types of grains capable of being produced in large quantities here in Alaska. Due to its high demand and needs, Korea is an ideal potential market for the export of these grain products, and if successful the venture promises to be very beneficial, in terms of jobs and revenue, to Alaska.⁶

G. Korean Investments in and Goods/Services Provided to Alaska.

As previously discussed, Korean investment in Alaska presently consists of joint ventures in coal, timber, fisheries and the raising of reindeer.⁷ The current level of this investment is significant, rapidly increasing and, as further discussed below, there is very strong Korean interest in its continued expansion.⁸

Korean firms have provided and are providing a large and increasing amount of heavy industrial products, materials and services to Alaska. Although there are no available

⁶-----
⁶This information was obtained from interviews with Hyoung "Henry" Kim, the president of Topex Industries, Inc., an Alaskan corporation with offices in Anchorage that is involved in the project discussed.

⁷The Nana Regional Native Corporation in Kotzebue is engaged in a Korean joint venture that involves raising and maintaining a herd of 6,000 reindeers, with the horns of slaughtered animals being exported to Korea and the meat being consumed by local Eskimos.

⁸In addition to the other specific joint ventures and projects mentioned in this report, AKBC member Robert Breeze recently indicated that a large Korean company, the Korea Ship Building and Engineering Corporation, has made serious and detailed proposals to build a modern ship repair and building facility at Seward.

figures as to the dollar level of these transactions, they include the following:

1. An \$118.4 million saltwater treatment plant that the Korean firm, Daewoo, constructed and delivered to ARCO on the North Slope in 1983;
2. The Hyundai Corporation, the largest in Korea, provided the structural steel for the new Sohio building in Anchorage; and
3. Hyundai is also erecting the transmission towers for a section of the Anchorage-Fairbanks power intertie.

The Koreans are especially interested in expanding the goods and services that have been and are being provided to Alaska. In terms of their potential to do so, it should be noted that in the last decade Korea has made a dramatic emergence in the world community as a heavily industrialized nation that does not need to take a back seat to anyone, with specific areas of expertise in the manufacturing of steel products; pipe; plant construction; heavy equipment; petrochemical industries; ship building and repairing; and general construction services.⁹

Because the Koreans are highly modernized and technologically sophisticated, and because they have a highly skilled and low priced labor force, they are very competitive in all the above areas, which has been and will be of substantial benefit to Alaska as Korean involvement in

⁹-----
This information was obtained from interviews with officials of the largest Korean Corporations, or conglomerates, whose annual sales figures and diversity of interest, expertise and projects are extremely impressive, as indicated in the brochures found in Attachment "C" hereto.

construction and infrastructure development projects continues and expands.

H. Potential for Future Trade.

Most Alaskans who are involved or contemplating being involved in trade with Korea unanimously agree that there is vast potential for increased trade, with the export of Alaskan natural resources as the most promising area. Of course, the major drawbacks of inadequate infrastructure and governmental regulations are usually also focused on by both Alaskans and Koreans interested in seeing trade in this area expand.

In general, Koreans view Alaska as an ideal trading partner because of its wealth of natural resources; its proximity to Korea; and its political stability compared to other sources of vital natural resources.

All of the major Korean corporations and government agencies contacted as part of this study expressed a keen interest in initiating or expanding their trade with Alaska.

For example, Director K.S. Choo, speaking for himself and on behalf of president M.J. Chung of Hyundai Heavy Industry, the largest private business entity in Korea, stated that his group of companies is interested in the following areas of trade with Alaska: steel; pipe; coal; timber; heavy industrial products; construction machinery and materials; and red meat.¹⁰

¹⁰-----
See notes on 1/11/84 interview with Mr. Choo in Attachment B hereto.

Mr. S.N. Sonh, the manager of natural resources of the Daewood Corporation, Korea's second largest private business entity, stated that his companies are interested in pre-cast cement; rolling stocks; LNG; coal; oil; ship building and repair; and textiles.¹¹

Mr. J.H. Kyong, the president of Samsung Corporation, the third largest private business entity in Korea with annual gross revenues of approximately \$2.5 billion, stated that his group of companies are interested in coal; timber; LNG; steel; heavy industrial products; oil and petroleum products; steel structures; pipe; heavy construction machinery, vehicles and tools; and joint ventures with Alaskan native corporations and other Alaskan entities, especially those involved in natural resource development.¹²

Mr. J.J. Kim, the executive vice-president of Kukje-ICC Corporation, the fourth largest private business entity in Korea with annual gross revenues of approximately \$2.2 billion, stated that his group of companies are interested in LNG; coal; timber; oil and petroleum products; heavy component parts; heavy equipment; and joint ventures with Alaskan native corporations and other Alaskan entities, especially those involved in natural resource development.¹³

¹¹ See notes on 1/13/84 interview with Mr. Sonh in Attachment B hereto.

¹² See notes on 1/9/84 interview with Mr. Kyong in Attachment B hereto.

¹³ See notes on 1/9/84 interview with Mr. Kim in Attachment B hereto.

The contacts undertaken for this study in Alaska and Korea leave little doubt that the potential for future trade is extremely promising. Indeed, given the strong interest and enthusiasm, and considering the mutually compatible needs and desires, on both sides, it appears to be inevitable that Alaska-Korean trade will continue and will expand. And it seems quite possible that this expansion will take place at an unprecedented rate, with obvious and potentially substantial benefits to both trading partners. Furthermore, it is also obvious that the Alaska state government can be of great assistance in fostering and enhancing this fruitful climate. Thus, the establishment and maintenance of an Alaskan trade office in Korea which can provide, as part of its functions, information about business and investment opportunities to both groups, and can serve as a contact point for Alaskan and Korean businesses, seems to be a logical and appropriate step in the right direction at this time.¹⁴

¹⁴-----
The major drawbacks to the rapid expansion of Alaska-Korea trade, as expressed by business and government leaders on both sides, are Alaska's lack of adequate infrastructure for resource development; the lack of sophistication and expertise in international trade among Alaskan businesses; the lack of consistent and positive governmental policies regarding resource development; and state and federal governmental restrictions and requirements. Of course, the Alaska state government can also be of major assistance in mitigating or removing some of these obstacles.

VI. - POTENTIAL ECONOMIC BENEFITS TO ALASKA

A. Generally.

As a general proposition, it is obvious that Alaska will reap economic benefits from increased trade with Korea, and from increased Korean investments in the state.

B. Level and Frequency.

As to the level and frequency of those benefits, there is inadequate, up to date information available on which to base any detailed estimates, other than to say that, as reflected in other sections of this report, there are various factors indicating that they are apt to be substantial, frequent and capable of rapidly increasing.

Those factors include but are not limited to the following:

1. The vast natural resources that Alaska possesses;
2. The great and increasing needs that Korea has for those resources;
3. Alaska's acute need to develop infrastructure to successfully and profitably market its resources;
4. Korea's willingness and ability to invest and participate in the development of Alaskan infrastructure;
5. Korea's rapidly growing capability and expertise in providing high quality goods and services at highly competitive prices; and
6. Korea's commercial and industrial aggressiveness and the healthy competitive affect this will have among potential providers of goods and services to Alaska, and among potential purchasers of Alaska's exports.

C. Nature and Extent.

As to the nature and extent of the benefits, the immediate benefit will be a broadening of Alaska's economic base stemming from the steady, thoughtful development of its

natural resources.¹ This should result in more jobs for Alaskans and a broader tax base as the infracture needed to market the resources is expanded and refined.

Just as success breeds success, a strong economy will breed a stronger economic base to sustain and benefit future generations of Alaskans. The long-term view shows that the potential for development of Alaska's resources, and the infrastructure necessary to market them, has barely begun, and that the process now under way can be controlled and guided in the proper direction, so as to make the Alaskan economy steadier and safer in the coming years.

For example, the imminent purchase of the Alaska Railroad will need to be coupled with private investments in further infrastructure development before the state can reap the maximum benefits. And the continuing expansion of the petroleum industry also needs to be tied to further infrastructure development so as to assure that the diversification necessary to stabilize and thoughtfully expand the Alaskan economy will occur.

The Korean business and government officials interviewed for this study understand and are more than willing to participate in fulfilling these Alaskan goals. And they openly acknowledge that it is in their best, long range interest to do so, as part of the price they are willing and

¹Of course, it is the Alaska legislature's function to make sure that the development of the state's natural resources takes place in a steady and thoughtful manner.

able to pay to obtain the vital natural resources so
desperately needed by their country.

VII. - FUNCTIONS, OBJECTIVES AND

EFFECTIVENESS OF ASAO

A. ASAO's Primary Area of Service.

The Alaskan State Asian Office (ASAO) located in Tokyo, Japan, has an interesting and intriguing history dating back to its founding in 1965 that was detailed in a recent study¹ and clearly indicates that despite its recently changed name, the ASAO has been and is primarily, if not solely, involved in providing contacts and services with and regarding Japan, rather than any other Asian country. This conclusion is further supported by an examination of pertinent documents and an interview conducted for this study by House Research Agency analyst Jonathan Sherwood with Vince O'Reilly, Deputy Commissioner of Commerce and Economic Development,² which indicates that the ASAO has devoted very little, if any, time or resources to Korea or the two other countries--Taiwan and China--that it is supposed to service.³

¹-----
¹ Alaskan State Asian Office Study, January, 1982, submitted by Agritrade International, Inc. to the Department of Commerce and Economic Development, at pages 10-14.

² See January 17, 1984, memorandum from Mr. Sherwood to House Speaker Hayes' office, at pages 2-3.

³ For examples, Mr. O'Reilly stated that the contacts and activities of the ASAO with Asian countries other than Japan is so negligible that virtually no records thereof are kept and no estimates can be made; and the 2 ASAO monthly reports detailing activities in September and October of 1983, which are in Attachment "D" hereto, show that the only contact with Korea during the 2 month period involved was a trip on October 12, 1983, to attend a funeral of the Korean government officials killed in the Rangoon bombing.

B. FUNCTIONS AND OBJECTIVES.

As mandated in the appropriate executive budget documents, the primary purposes and functions of the ASAO are to:

1. Provide the Alaska business community with pertinent intelligence on market prices and conditions, product utilization, etc.;
2. Locate and establish business contacts which are interested in Alaskan products and investments;
3. Act as a catalyst to assist Alaska and foreign business persons to meet and conduct business;
4. Establish foreign government contacts which are important to Alaska, and introduce them to the state's economic trade and development policies; and
5. Establish a favorable image of Alaska in foreign countries.

As previously mentioned, it is quite clear that the ASAO is only exercising the functions and fulfilling the objectives listed above in regard to Japan. For example, as to the first function and objective, it is obvious that the ASAO cannot provide "pertinent intelligence on market prices and conditions" in Korea if its only contacts with that country in a 2 month period is a single trip there to attend a funeral.⁵

C. Effectiveness.

It is difficult, if not impossible, to evaluate the effectiveness of the ASAO without some measurable and meaningful criteria. However, during its years of operation, Alaskan exports to Japan have risen dramatically and it is predicted that they will reach the \$1 billion mark

⁴See footnote 2, above, and accompanying text.

⁵See footnote 3, above, and accompanying text.

in the next year or two,⁶ and this is in itself an indication of the ASAO's strong effectiveness.

However, once again it must be pointed out that the ASAO's effectiveness is only in relation to Alaskan trade with Japan. Certainly, based on the previously mentioned information, it would be unwarranted to attribute the dramatic recent rise in Alaskan exports to Korea⁷ to the ASAO.

6A U.S. Department of Commerce, Division of International Trade, study listing the level of Alaska exports to Asian countries through November, 1982, indicated that in 1981 the total exports to Japan were approximately \$934 million. This decreased in 1982 to approximately \$888 million, but the director of the U.S. Department of Commerce's Anchorage office, Richard Lenahan, concurs with the \$1 billion in the next year or two prediction.

⁴The same study mentioned in footnote 6, above, shows that exports to Korea rose from approximately \$20 million in 1981 to around \$95 million through November of 1982.

VIII. - EXPANDING THE ASAO TO SERVICE KOREA

A. Only Protocol Functions and Objectives Being Provided Re Korea.

As pointed out in the previous section of this report, the ASAO is not, in any meaningful sense, providing any services in regard to Korea.

The ASAO is not, in any meaningful sense, providing the Alaska business community with pertinent intelligence on market prices and conditions, product utilization, etc., in regard to Korea. It is not and it cannot perform this function because to do so would require a presence or representation in Korea, and that has not occurred and is not occurring.

The ASAO is not and cannot locate and establish business contacts in Korea which are interested in Alaska products and investments because to do so would require a presence or representation in that country, and that has not occurred and is not occurring.

The ASAO is not and cannot act as a catalyst to assist Alaska and Korea business persons to meet and conduct business because to do so would require a presence or representation in Korea, and that has not occurred and is not occurring.

However, the ASAO is apparently making some effort, and planning to increase those efforts,¹ to establish government

¹This information was obtained by House Research Agency analyst Jonathan Sherwood through interviews with Alaska state officials and review of applicable documents for this study.

contacts which are important to Alaska, and introduce them to the state's economic trade and developmental policies, and to establish a favorable image of Alaska in Korea.

It should be noted that the latter activities being performed and contemplated by the ASAO in regard to Korea are in the nature of a liason or protocol function and objective.

B. Feasability.

The question of whether it is feasible for the ASAO to expand its present or contemplated functions and objectives so as to perform and fulfill them in regard to Korea, has already been answered in the negative, for obvious reasons.

The gathering of pertinent, or useable, intelligence on market prices, conditions, product utilization, etc., in Korea is a function that cannot conceivably be performed without being present or represented in that country. And the same is true for locating and establishing business contacts and acting as a catalyst for business transactions. These are activities that require virtually day to day attention and cannot be performed in any meaningful sense from another country.

C. Other Considerations.

Thus, the only way to expand the ASAO to service Korea is to limit its activities in that country to those it is already performing or contemplating, which is mainly a liaison or protocol function. Increasing the contacts the ASAO has with Korea will not substantially alter the nature of that

function unless those contacts are increased to the point where it becomes practical and necessary to have a representative permanently stationed in Korea, and to establish a permanent ASAO branch office there.

However, there are reasons that such an alternative to establishing a separate Alaskan trade office in Korea is ill-advised and should be rejected.

As previously mentioned and discussed in this report Koreans have a strong sense of national identity and they are very sensitive about being rated second to Japan.² Indeed, all the Korean business and government officials interviewed for this study pointed this out, and some of them expressly stated that they would consider the expansion of the ASAO in Tokyo to service Korea as relegating Korea to the position of being a second class citizen.³

Other Koreans interviewed for this study had more practical objections. Thus, Mr. Rhim, the executive director of the Korea-U.S. Economic Council (KUSEC) pointed out that to be effective, an Alaskan representative in Korea must be knowledgeable of Korean business protocol and must have an understanding of Korean business practices and their ramifications.⁴ Mr. Kyong, the president of Samsung Corporation, stated that a Tokyo liaison office would not be efficient because of the amount of time lost due to travel,

²See section IV, subsection E, above.

³See notes on 1/11/84 interview with Mr. Choo, the director of the Hyundai Corporation, in Attachment B hereto.

⁴See notes of 1/31/84 interview with Mr. Rhim in Attachment B hereto.

reporting and follow up. He also pointed out that his company had experienced these very difficulties with their own corporate branch office structure in other parts of the world.⁵

⁵See notes on 1/9/84 interview with Mr. Kyong in Attachment B hereto.

IX - PROS AND CONS OF ESTABLISHING A SEPERATE

ALASKA TRADE OFFICE IN KOREA

A. The Pros Among Koreans.

Virtually all of the Korean business people and government officials interviewed as part of this study agreed that the establishment of a seperate Alaska trade office in Korea would not only be of great potential benefit to both Koreans and Alaskans, but would also constitute a positive and much needed step in the direction of fostering better trade relations that might have immediate, practical results.

The Koreans were sophisticated and realistic enough to understand that although Alaska is a wealthy state in many respects, like most other governmental bodies throughout the world, it also has limitations on the amount of public funds it can devote to business promotional activities such as the establishment, staffing and operation of a foreign trade office. Nevertheless, virtually all of them seemed to have a very difficult time understanding why the Alaska state government doesn't already recognize that the tremendous potential economic benefits to be derived from fostering trade relations with Korea at this time far outweigh the

costs of establishing, staffing and operating a modest trade office in their country.¹

Koreans are very aware and proud of the fact that their country is presently the United States' 12th largest trading partner; that Korea is one of the largest importers of U.S. grain products and livestock; and that Korea has incurred and continues to incur a substantial trade deficit in its dealings with the United States.

Koreans are also very keenly aware of the rapid, unprecedented increase in trade with Alaska during the past few years, and they generally view the opening of an Alaskan trade office in Korea as an ideal way to encourage Korean businesses, who can usually obtain extensive cooperation and assistance from the Korean government, to actively get involved in trade activities with Alaska.

As indicated in the notes of the interviews conducted in Korea contained in Attachment D hereto, virtually all the Korean business and government leaders contacted felt that an Alaskan trade office in their country could fulfill the vital and necessary functions of providing detailed information about Alaska and being a point of contact for Korean and Alaskan business entities. Furthermore, there

¹ Attachment "C" hereto contains letters from three of the major Korean corporations contacted whose expression of support for the proposed trade office are representative of all the other business and government leaders interviewed. Furthermore, one of those letters, from Jung Ju Kim, Executive Vice President of the Kukje - ICC Corporation, expresses the widespread desire and need for detailed information about Alaska, which is a perceived function of an Alaskan trade office in Korea.

was widespread interest in being provided access to information about government regulations affecting trade, and other technical matters necessary to engage in or expand business activities in and with Alaska.

B. The Pros Among Alaskans.

The view among Alaskan business persons and officials interviewed was equally one-sided in favor of establishing a separate trade office in Korea, and virtually all the Alaskans who are presently involved or contemplate being involved in trade with Korea emphasize the strong need for such a source of detailed information about Korean groups, opportunities, procedures and other factors vital to efficient and profitable trade with that country.

C. The Cons.

From the Korean side there were not any objections to the proposed Alaskan trade office, and from the Alaskan side the only negative point to the establishment, staffing and operation of a separate trade office in Korea was its cost. In this regard, although it can be said that setting up an office the size of the ASAO in Tokyo is prohibitive and perhaps unjustifiable at this time, virtually everyone will agree that a smaller office in Korea, with a small staff, does not seem excessive in light of the substantial potential benefits to be derived by fostering trade with Korea at the present time.

X - CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions.

Based on the information obtained in this study, the conclusion that is not only feasible but appropriate and even necessary to establish a separate Alaskan trade office in Korea is inescapable.

In just the past few years, the level of Alaskan exports to Korea has dramatically increased¹ and there has been an increase in Korean investment in Alaska, with every indication that these trends will continue and rapidly expand in the future, thus providing substantial potential economic benefits to Alaska.²

All these things, and more, indicate that the state should endeavor to realize these potential economic benefits, and that the establishment of a separate trade office in Korea that can fully perform and fulfill all the functions and objectives of the ASAO in Tokyo will be a significant, positive step in that direction. In this regard, the option of expanding the ASAO to adequately service Korea is unfeasible and, insofar as the Koreans themselves are concerned, unthinkable, demeaning and thus inherently contradictory to the basic objective of improving Alaska's image in that country.

¹See section V, subsection F, and section VII, subsection C, footnote 7, above. The latter refers to a study showing that the level of Alaskan exports to Korea rose from \$20 million in 1981 to \$95 million in 1982..

²See section VI, subsection B, above, for a list of factors responsible for this trend.

B. Recommendations.

In addition to recommending that a separate trade office in Korea be established as soon as possible, the following recommendations are also offered:

1. Location: as suggested and³ explained by the executive director of KUSEC and the vice-president of the US Chamber of Commerce in Korea,⁴ the Alaskan trade office should be located in the central business district of Seoul, close to the United Government Building and the U.S. Embassy, not only because of easier access to government and business headquarters, but also because such a location is perceived by Koreans as a status symbol of which they are extremely conscious.⁵
2. Staffing: the Alaskan trade office should have, as a minimum staff, an executive director, a deputy director and a secretary. It is important to have a deputy director because there should always be someone in the office of sufficient rank to host important visitors while the executive director is attending important functions.
3. Qualifications: either the executive or deputy director must be fluent in Korean and be able to read and write the language. In general, these individuals should be business oriented professionals, preferably with experience in Korean-Alaskan trade, rather than dignitary types. This is in keeping with the tenor of the office, which should be oriented more toward the business functions than

3See notes on 1/10/84 interview with Mr. Rhim in Attachment D hereto.

4See notes on 1/10/84 interview with Brigadier General (retired) Frederick C. Krause in Attachment D hereto.

5See section IV, subsection B, above, where the basic principles of seniority, courtesy and respect and discussed, pursuant to which, having an office in an inferior location would be a breach of Korean business etiquette.

the liaison or protocol functions.⁶

4. Duties and Goals: The Alaskan trade office should have the same basic functions and objectives that are presently mandated for the ASAO in Tokyo, which are to:

- a. Provide the Alaska business community with pertinent intelligence on Korean market prices, conditions, product utilization and related matters;
- b. Locate and establish Korean business contacts which are interested in Alaska products and investments;
- c. Act as a catalyst to assist Alaskan and Korean business persons to meet and conduct business;
- d. Establish Korean government contacts which are important to Alaska, and introduce them to the State's economic trade and development policies; and
- e. Establish a favorable image of Alaska in Korea.

5. Proposed Annual Budget.⁷

| | |
|------------------------------|-------------------|
| Executive Director | \$ 60,000. |
| Deputy Director | 40,000. |
| Secretary | 10,000. |
| Office Rent | 24,000. |
| Office Equipment | 10,000. |
| Office Expenses | 12,000. |
| Office Supplies | 1,200. |
| Printing | 1,200. |
| Entertainment | 12,000. |
| Misc. Costs (licenses, etc.) | 10,000. |
| Total | <u>\$180,400.</u> |

⁶ As previously discussed in section VI, subsection B, above, this is in recognition of and in compliance with the strong Korean work ethic, pursuant to which the appointment of dignitary-type individuals with no prior experience in or detailed knowledge of Korean-Alaskan trade would be viewed as inefficient and unwise. This is not to say, however, that the protocol or liaison function and objective should be ignored.

⁷ Detailed estimated costs of office space, housing, transportation, schooling and other expenses were provided by the vice president of the U.S. Chamber of Commerce in Korea. See notes on 1/10/84 interview with Brigadier General (retired) Frederick C. Krause in Attachment B hereto.

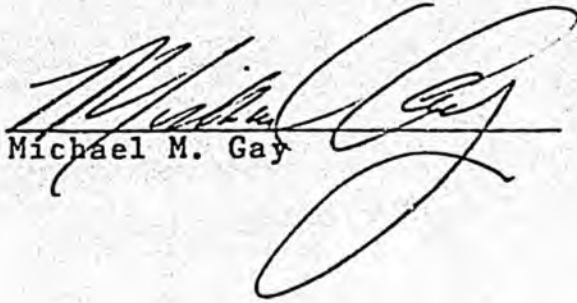
6. Placement.⁸

The Alaskan trade office in Korea should be placed under the jurisdiction of the Department of Commerce and Economic Development, where the ASAO in Tokyo is presently placed. This is consistent with the practice followed by virtually all states that have foreign trade offices.

⁸Detailed estimated cost of office space, housing, transportation, schooling and other expenses were provided by the vice president of the U.S. Chamber of Commerce in Korea. See notes no 1/10/84 interview with Brigadier General (retired) Fredrick C. Krause in Attachment B hereto. See section III, above, containing the following statement: "In almost all cases, the foreign trade offices are associated with their state's economic development agency."

SUBMITTAL

This report is being respectfully submitted on the 14th day
of February, 1984, to Alaska House of Representatives
Speaker Joe Hayes by


Michael M. Gay




ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

January 17, 1984

MEMORANDUM

TO: Representative Joe Hayes
Attn: Jeff Day

FROM: Jonathan Sherwood 
Legislative Analyst

RE: Alaska State Trade Office in Korea
Research Request 83-245

Jeff Day of your staff requested that our agency provide information on state foreign trade offices and on Alaska-Korea trade. It is our understanding that this information is to be used by a consultant, Michael Gay, in a study he is preparing on the feasibility of a State trade office in Korea. Specifically, we were asked to perform the following research:

- Outline the current structure of the State's Asian office including staffing, duties, and costs.
- Describe the history of Alaska-Korean trade efforts.
- Identify and report on activities of other states which have established offices in Korea and other Pacific Rim countries.

In the course of our research, we have contacted several individuals familiar with the history of Alaska-Korean trade or with the activities of other state's trade offices. In addition, we have obtained information from the Department of Commerce and Economic Development (DCED) pertaining to the operations of the State's Asian Office and the extent of Alaska's trade with Korea and other Asian nations.

Whenever possible we have obtained statistics and other quantitative data concerning the issues we were asked to address and included many of these materials as attachments to the memorandum. This has allowed us to spend more time collecting data while still providing the information to the consultant in a useful form--perhaps more useful given the problems inherent in using secondary and tertiary sources.

THE STATE OF ALASKA'S ASIAN OFFICE

The State's Asian Office, in Tokyo, is the major component of the Alaska Department of Commerce and Economic Development's Office of International Trade. In addition to the Asian Office, the Office of International Trade includes one Development Specialist position in Juneau. However, this position is not currently filled.

Staffing. The State's Asian Office is staffed by one State employee, a Far East Representative. This position is currently filled by W. D. Overstreet, former Mayor of Juneau. Mr. Overstreet reports to Deputy Commissioner Vince O'Reilly or Commissioner Lyon. Four Japanese employees also work for the Asian Office; they are hired on a contractual basis to avoid the complications of having foreign employees in the State personnel system. These employees, with their current annual salaries, are listed below:

| | |
|---------------------------------|----------|
| 1 Bilingual Executive Secretary | \$20,500 |
| 1 Translator/Research Analyst | \$20,000 |
| 1 Clerk-Typist/Receptionist | \$18,000 |
| 1 Assistant/Translator | \$14,500 |

Duties and Activities. According to the FY 85 executive budget documents, the purposes and functions of the Office of International Trade are to:

- provide the Alaska business community with pertinent intelligence on market prices and conditions, product utilization, etc.;
- locate and establish business contacts which are interested in Alaska products and investments;
- act as a catalyst to assist Alaska and foreign business persons to meet and conduct business;
- establish foreign government contacts which are important to Alaska, and introduce them to the State's economic trade and developmental policies; and
- establish a favorable image of Alaska in foreign countries.

According to the FY 84 Executive Budget, the office serves Alaska and foreign companies, State agencies, and Alaska and foreign tourists. Based on conversations with Vince O'Reilly, Deputy Commissioner of Commerce and Economic Development, and on DCED documents, it appears that the Asian Office serves all of these functions. Mr. O'Reilly, stated that the target area of the Asian office is currently Japan, Korea, Taiwan, and the People's Republic of China.

Representative Hayes
January 17, 1984
Page Three

Mr. O'Reilly was not able to estimate the amount of time the Asian Office devotes to countries other than Japan; however, based on our discussion and the Far East Representative's reports, it appears that Mr. Overstreet intends to make a significant effort to expand contacts with Korea. For example, according to Mr. O'Reilly, the Representative is participating in the discussions between the State and Korea concerning liquified natural gas exports.

Based on the monthly reports from the Far East Representative to the Commissioner's office, it would appear that a significant amount of the Representative's time is spent meeting with Japanese business persons who are interested or involved in Alaska trade activities. The Far East Representative also meets with and assists members of the media who are interested in publishing information about Alaska.

One of the duties of the Far East Representative is to represent the State of Alaska and, to some extent, Alaska industry at trade shows, political functions, and business-related social functions. In addition, the Asian Office hosts receptions and luncheons for visiting Alaska businessmen and State officials. Vince O'Reilly explained that business relations in Japan traditionally involve more social activities than in the United States.

The Far East Representative also serves as the official representative of the Governor of Alaska at state functions. For example, Mr. Overstreet represented the Governor at the funeral of the Korean government officials assassinated this autumn.

Another responsibility of the Asian office is to provide assistance and support for trade delegations and visiting State officials. For example, when Governor Sheffield and his party travelled to Japan and Korea this last fall, the Asian Office was responsible for some of the arrangements; Mr. Overstreet and staff members also accompanied the Governor. According to Mr. O'Reilly, the Asian Office was also responsible for arranging a tour of the Far East for an Alaska logging industry group in the spring of 1983; the Office identified appropriate contacts and arranged meetings with Asian firms.

One of the activities of the Asian Office is the compilation and/or the dissemination of market information, both for Asian businesses interested in trade or investment in Alaska and to Alaska firms interested in marketing their products in the Orient. Two of the Japanese support staff translate information published in Japanese to English.

Productivity. One convenient method of determining the productivity of the Asian Office is to look at the extent to which it meets its

Representative Hayes
January 17, 1984
Page Four

own performance objectives. The following performance measures were listed in the monthly reports submitted by the Far East Representative:

- the number of trade/marketing shows in which staff members participate;
- the number of conferences attended;
- the number of firms contacted or assisted;
- the number of Japanese organizations provided information;
- the number of pamphlets distributed;
- the number of Alaska firms provided information; and
- the number of government representatives assisted.

We have already provided the consultant with two of the Asian Office monthly reports which provides information on the extent to which each staff member performs these duties (see Attachment A). At his request, we will attempt to obtain additional reports from DCED.

Costs. The State Asian Office is included in the International Trade component of the DCED budget. This component also includes one development specialist position in Juneau and some travel funds used for DCED officials and others to participate in international trade events.¹

The FY 85 Executive Budget request for the International Trade component is \$543,500. According to the FY 85 budget documents (Attachment B), this represents a maintenance level budget for the new fiscal year.² Of the total amount, approximately \$455,900 is for the Asian Office. Table 1 provides a breakdown of these costs. The remainder of the International Trade component budget goes to support the Juneau-based development specialist and to finance international trade promotion activity by State officials, legislators, and others.

¹ While we have been able to separate most of the costs of the State Asian office, it should be noted that there are a few items, e.g. office supplies, for which approximations have been used. However, this should not result in a significant error in our calculations.

² According to Joan Brown, service level SL 1 (identical to SL 2) was included in the included in the Governor's budget. Budget levels for SL 1 are used in this memorandum and should be used when looking at Attachment B.

TABLE 1
Alaskan Asian Office Costs
(in \$thousands)

| | |
|--|-------|
| <u>Personal Services</u> | |
| Salary | 85.0 |
| Employee Benefits | 18.3 |
| <u>Travel</u> | |
| Field and administrative | 35.6 |
| <u>Contractual</u> | |
| Communications | 35.0 |
| Printing and advertising | 13.0 |
| Space expense and fees | 90.0 |
| Repair and maintenance | 2.0 |
| Equipment rental | 4.0 |
| Professional fees | |
| Tokyo office staff | 90.0 |
| Contracts* | 9.0 |
| Other fees and expenses, risk management | 60.0 |
| <u>Supplies and Materialst</u> | |
| Household and institutional supplies | 1.5 |
| Structural materials and supplies | .5 |
| Equipment parts and supplies | .5 |
| Office and library supplies | 11.5 |
| TOTAL | 455.9 |

* This item is for consulting contracts; the amount expended by the Asian Office varies from year to year. For our purposes, we have allocated one-half of the total amount to the Asian Office.

† Some supplies and materials may be charged to the Juneau Development Specialist position; however, we are unable to separate these expenses at this time.

Source: Department of Commerce and Economic Development, FY 85 budget documents, C series for International Trade Component, and conversations with Joan Brown, DCED. Table prepared by House Research Agency, 1984.

Representative Hayes
January 17, 1984
Page Six

One should note that the allocation for space rent not only includes office space in Tokyo, but also an apartment for the Far Eastern Representative. According to Joan Brown, administrative assistant with the Department of Commerce and Economic Development, the cost of office rent is currently about \$54,200 per year and the apartment costs about \$32,000 per year. The \$60,000 shown for other fees and expenses, and risk management includes \$10,000 for membership fees, \$8,000 for conference registration, and \$37,300 for hospitality.

History. The Alaska State Asian Office was opened at the end of 1964 following the passage of the legislation which created and funded it for \$25,000 (SLA 1964 Ch. 91 & 92). Originally, it was administratively located in the Office of the Governor; however it was transferred to the Department of Commerce and Economic Development in 1980.

Based on comments we received in the course of our interviews and on information included in previous consultants' studies of the Asian office, it appears that the Office has operated without strong direction or support from some of the past administrations. For further information on the past activities of the Asian Office we refer you to the Alaska Trade Offices Study published for the Alaska Legislature by Dupere and Associates in January of 1982 and to the Alaskan State Asian Office Study, performed by Agritrade International Inc.; these reports are included with the memorandum. Both contain information on past operations of the office as well as evaluations of the office's performance and support from State government in Alaska.

OTHER STATES' TRADE OFFICES

According to a 1980 survey, 33 states were represented in that year by trade offices in 66 foreign countries. This had increased from 20 states in 1977.³ While some states may have added or closed foreign trade offices in the last three years, international trade staff for such national organizations as the National Association of State Development Agencies (NASDA), the National Conference of State Legislators (NCSL), and the Council of State Governments (CSG) indicated that the level of activity is about the same currently. NASDA is in the process of compiling an updated list of states' foreign trade offices, which should be available later this year.

In almost all cases, the foreign trade offices are associated with their state's economic development agency. In a few cases, the office represents the state's agriculture agency, and in some states, different agencies share an office. In some cases, rather than representing a state, an office will represent a port authority or some other regional entity. For the purposes of our discussion, we have not included any state offices which are limited to promoting tourism, although some state trade offices do serve this function in addition to other duties.

Foreign trade offices are most frequently staffed by personnel employed directly by state government, as is the case with Alaska. In many cases, these are regular employees of the parent agency, who are routinely rotated to their home state. However, some states contract with one or more foreign consultants to represent their state. In addition, several western states operate the Old West Commission, which has had joint trade offices in both Europe and Asia.

Foreign trade--and consequently the activities of state foreign offices--is often classified into two broad categories: (1) investment; and (2) trade. Investment, also called reverse investment or foreign investment, refers to business transactions in which foreign companies invest capital in the state, frequently by opening a manufacturing plant.

Trade, the second kind of activity, involves the exporting of goods to foreign markets. According to Marsha Clarke, with NASDA, state foreign trade office activity is fairly evenly divided between the promotion of these two functions, at least on the global scale. State

³ National Governors' Association, Export Development and Foreign Investment: Ther Role of States and Its Linkage to Federal Action, 1981, p. 22.

offices in developed countries like Japan may place a higher priority on encouraging investment; in developing nations, state offices may place a greater priority on expanding export markets, as these countries are less likely to have firms interested in developing operations in the U.S.

The trade offices of other states also collect trade intelligence for their state. However, according to Ms. Clarke, it is difficult to identify how much time is devoted to this activity, as it tends to be performed in conjunction with the office's promotional activities.

According to a 1982 study prepared for the Alaska Legislature by Dupere and Associates, once a state foreign office has made contact with a foreign firm interested in doing business with the U.S., the state's home office provides the U.S. business contact.

The Dupere report and other articles on foreign trade offices emphasize the importance of strong direction and support for state foreign offices from their parent agency. The home office must be able to identify the appropriate business contacts for foreign business interests who contact the state's foreign office, and to identify which in-state businesses expressing interest in exporting their products are serious candidates for foreign trade.

Ms. Clarke stated that the typical cost for a foreign trade office would be between \$100,000 and \$300,000. She noted that the upper limit generally provides for a large operation, but also cautioned that Tokyo was substantially more expensive than other locations. A 1982 survey indicated that the number of employees per office varied from 1 to 8, with 2 or 3 employees being the most common staffing pattern. The largest number of employees in the Japanese offices surveyed was 6.

Asian Offices. According to Marsha Clarke, her most recent information shows that 19 states now have foreign trade offices in Japan.⁴ In addition, California, which does not have a state office there, has several port authorities, including Long Beach and Oakland, which operate offices in Japan. Most of these offices are regional in scope; however, some of the offices are intended to deal strictly with Japan. States which currently have offices in Japan are listed below:

| | | | |
|----------|---------------|----------------|----------------|
| Alabama | Indiana | Michigan | Pennsylvania |
| Alaska | Kentucky | Missouri | South Carolina |
| Florida | Louisiana | New York | Virginia |
| Georgia | Maryland | North Carolina | Washington |
| Illinois | Massachusetts | Ohio | |

⁴This compares with 14 states in 1980.

Representative Hayes
January 17, 1984
Page Nine

In addition, Illinois has an office in Hong Kong and Missouri has an agriculture representative in Singapore. None of the individuals we contacted was aware of any state with an office in Korea.⁵

According to Ms. Clarke, state foreign trade offices in Japan usually place much more emphasis on encouraging foreign investment and little emphasis on increasing exports. Ms. Clarke explained that this is a result of Japan's long-standing trade restrictions on the importation of manufactured goods and agricultural products. Traditionally, these have made it very difficult for U.S. businesses to export goods to Japan. While some of these restrictions have been lifted in recent years, Ms. Clarke stated that the direction of states' trade office activities in Japan have not changed significantly. The Dupere study also found that most state offices in Japan devote more time to promoting Japanese investment in the U.S. than to promoting trade.

For additional information, we refer you to the Dupere study, which includes an examination of eight state offices in Tokyo and ten offices in Europe. The study provides a substantial amount of information on their activities and procedures. We also refer you to Attachment C, which provides several articles on state foreign trade offices sent to our agency from the Western Conference of the Council of State Governments.

⁵ We received an excerpt of a recently published book on foreign trade office activity which refers to a possible office in Korea. The excerpt does not provide detail on the status of the office; it is not clear whether an office has been opened or was merely planned.

HISTORY OF ALASKA-KOREAN TRADE

There are very few documents available which specifically address the past and current trade activities between the Republic of Korea and the State of Alaska. Most of our information was obtained either through conversations with individuals familiar with Alaska-Korea trade activities, or from publications which addressed only a small portion of trade activities or included information on Korea incidental to other topics. As a result, the information presented in this section does not represent a comprehensive summary of Korea-Alaska trade activities.

In this section, we will present a general overview of Alaska-Korea trade, including an informal chronology of events. We then discuss the history and status of specific areas of trade, including examples and statistics whenever we have found them readily available.

Overview

Historically, direct trade between Alaska and Korea has been relatively sparse compared to trade activities between Alaska and Japan, or Alaska and the contiguous United States. According to the individuals we contacted, trade activities between the two countries have generally involved exporting Alaska natural resource products, particularly fish and timber, to Korea. In addition, some Korean firms have supplied industrial materials for large capital projects, and in a few cases, Korean firms have received contracts to construct all or portions of such projects. In recent years, Korean firms have also begun participating in joint ventures with Alaska businesses involved in natural resource extraction.

Presented below is a brief chronology of Alaska-Korea trade activities based primarily on our interviews with those knowledgeable about the history of Alaska-Korea trade. While it is not comprehensive, it should help to place the discussion in a clearer perspective.

| <u>Year</u> | <u>Event</u> |
|-------------|--|
| 1950s | --- Little direct trade between Alaska and Korea. Timber and fish products exported from Alaska to Korea through Japanese trading companies. |
| Late 1960s | --- Korean fishing fleet begins fishing in Alaska waters. |
| | --- Hyundai Corporation builds Parks Highway bridge at Hurricane Gulch. |

| <u>Year</u> | <u>Event</u> |
|-------------|--|
| Early 1970s | --- More wood products exported to Korea, still through Japanese trading companies. |
| | --- Sun Eel Corporation begins exploring the possibility of exporting coal from Alaska to Korea. |
| 1975 | --- Anchorage businessman, Loren Lounsbury, appointed honorary consul by Korean government. |
| Mid 1970s | --- Koreans begin participating in joint timber ventures with Alaska businesses. |
| Late 1970s | --- U.S.-Korean joint ventures in Alaska fisheries begin. |
| 1980 | --- Korean government establishes Consul-General post in Anchorage. First Consul-General appointed. |
| | --- Sun Eel exports test shipment of Usibelli steam coal to Korea. |
| 1981 | --- Sun Eel agrees to export 800,000 metric tons of coal annually through Seward for 15 years. |
| | --- Hyundai awarded contract to erect transmission towers on the Anchorage to Fairbanks electrical intertie. Also provides structural steel for the new Sohio building in Anchorage. |
| | --- Daewoo Corporation provides saltwater treatment facility to Atlantic Richfield Corporation on the North Slope. |

In addition, we located some general statistics on the volume of Alaska-Korea trade in past years. Attachment D is a table, taken from the Alaska Statistical Review, 1980, which gives the value of Alaska imports and exports by nation for selected years between 1970 and 1979. The table shows that in 1970, Korea ranked fourth as a recipient of Alaska exports behind Japan, India, and Canada. In 1979, Korea again ranked fourth as a recipient of exports, this time behind Japan, India, and the People's Republic of China. Japan is clearly the dominant export market for Alaska, receiving over 80 percent of all Alaska exports. Korea does not appear to have been a significant source of imports to Alaska in the 1970s.

Attachment E provides information on Alaska's exports to East Asian markets for the years 1978 through 1982. This information was provided by the Alaska Department of Commerce and Economic Development. As the table shows, Korea had consistently ranked behind Japan and the People's Republic of China until 1982, when it surpassed China. However, it should be noted that in 1982, two reconditioned jet aircraft were exported to Korea from Alaska accounting for over half of the total figure. This is not a common export item for Alaska and, to some extent, distorts the export figures for 1982.

It should be noted that these statistics reflect only exports which are shipped directly to Korea from Alaska. Many of the individuals interviewed stated that some Alaska products are exported to Japan and are then sold to Korea by Japanese trading companies. Also, some Alaska products may be transported to the contiguous U.S. before being shipped to Korea. We have not located any statistics which indicate the extent to which this occurs.

In the sections that follow, we provide information on the history and current status of specific areas of trade, a summary of trade promotion activities, and a brief discussion of the potential for increased trade between Alaska and Korea. Much of the information is qualitative in nature, based on interviews and descriptive reports on Alaska commerce. Whenever possible, we have included existing summary data on the volume of specific items of trade.

Comprehensive information on the level of trade is available in the U.S. Department of Commerce reports for the Alaska customs district, which may be obtained from the U.S. Department of Commerce International Trade Office in Anchorage. In fact, the information in the two attachments discussed above was compiled using these reports. The reports go back to 1964 and provide export and import totals for the district as well as specific dollar and piece amounts for individual items. Unfortunately, these reports do not provide any summary data by general type of product, for example, forest products or seafood.

We have not attempted to compile any summary data using these reports, as we lack ready access to the reports in Juneau (the International Trade Office in Anchorage does not have duplicating equipment capable of making copies of the microfiche records for recent years). The task of obtaining copies and compiling summaries ourselves was not possible within the time constraints of this request. However, as previously noted, some of the information has already been summarized by other agencies and these are included in the attachments.

Fishing

Export of Alaska seafood products to Korea has been one of the largest items of trade between Alaska and Korea over the past five years. During the period 1978 through 1982, seafood products have usually ranked second to timber in dollar value of exports to Korea. The exports peaked in 1980, with a value of \$24.3 million and accounted for \$9.3 million in the first eleven months of 1982 (see Attachment E).

In addition, according to Robert Breeze, president of the Alaska-Korea Business Council, Korean vessels have been fishing in the waters off Alaska since the late 1960s. However, according to one report:

foreign fisheries are entirely self-sufficient, high-seas operations with the supplying of fleets and offloading of catches primarily carried out at sea. The catches are processed to varying degrees, and mostly frozen for transport to the homeland. Most of the foreign catch is Alaska pollock and other species taken by trawling, with much smaller amounts of sablefish and cod harvested by longline gear.⁶

Thus it would appear that, historically, Korean fishing activities in Alaska waters have had little impact on the Alaskan economy. A table from the Alaska Statistical Review, 1982 showing the number of foreign vessels permitted in the Alaskan Fisheries Conservation Zone (FCZ) for the years 1977-1981 is provided in Attachment F. The table shows that Korea has consistently ranked third behind Japan and the U.S.S.R. in the number of permits issued to foreign vessels.

However, in recent years joint ventures between U.S. trawlers and foreign processors have been initiated. Foreign processors from Korea, the Soviet Union, Poland, Japan, and West Germany have participated in joint ventures in the Alaska region. U.S.-Korean operations have involved mainly pollock.⁷

U.S.-Korean joint ventures in the Alaska FCZ resulted in a catch of 1,384 metric tons in 1979. By 1981, this catch had increased to 41,683 metric tons. The table included on page 41 of Attachment G compares joint venture activities for five foreign countries in the Alaskan FCZ for 1979-81. It shows that Korea ranks second to the Soviet Union in total joint venture catch. In 1981, the Soviet Union accounted for 55 percent of the joint venture catch and Korea accounted for 32 percent.

⁶ Alaska Fisheries Development Foundation, Fisheries of Alaska, 1981, prepared by Natural Resources Consultants, July 1982.

⁷ Ibid.

There are several indications that the potential for increased joint venture activities with Korea is great. Of the seventeen joint-ventures approved by the North Pacific Fisheries Management Council in December of 1983, eight involved Korean firms. In addition, some of the Native corporations we contacted reported that they were currently negotiating with Korean firms for joint ventures. Furthermore, foreign allotments of the Alaskan FCZ fisheries are now determined to some extent by that nation's level of joint-venture activity in the fishery. This increases the incentives to foreign processors to participate in joint ventures.

Timber

For the period 1977 through 1982, forest products were the most consistent and most valuable export from Alaska to Korea. The value of forest products exported to Korea in the first eleven months of 1982 was \$9.7 million. However, for the same five-year period, 1977 to 1982, Korea generally ranked behind Japan and the People's Republic of China as a market for Alaska timber. Japan frequently imported twenty times the amount of Alaska forest products imported by Korea during this period.

The Alaska timber export market to Korea includes hemlock, used in the hidden interiors of homes, Sitka spruce, used in musical instruments, and red cedar, which has recently become a popular paneling material in Korea.

There have been some joint-timber ventures between Korean and U.S. firms in Alaska. According to Robert Breeze, Korean firms have been involved in joint timber ventures with some Native corporations. Robert Loescher, with the Sealaska Corporation, reported that his firm is undertaking a joint venture with the Korean Alaska Development Corporation (KADCO), a consortium of several Korean trading companies, including Hyundai Corporation and Samsung Corporation. Mr. Loescher also mentioned that his corporation has been exporting timber to Korea for the last several years. In 1983, Sealaska exported 25 million board feet of round logs to Korea.

A recent study of the markets for Alaska timber compiled for the U.S. Forest Service predicts that the Korean market for spruce will hold steady or increase slightly in the future. However, it also points out that the Korean market for hemlock is likely to decline as the Japanese market improves. This is because the Koreans are currently buying a higher grade of hemlock than they require, due to its low price compared to inferior quality woods from other sources. If Japan begins paying more for this hemlock, the Korean market will probably substitute other woods. The study does anticipate an increase in the demand for red cedar, and mentions that there may be some potential for selling Alaska cottonwood, white spruce, and possibly birch to Korean markets.

Attachment H contains the pertinent section of this Forest Service report, which includes tables with some Korean timber import information.

Minerals

Coal. While there has been Korean interest in Alaska coal since the early 1970s, actual exports did not begin until 1980, when the Sun Eel Shipping Co., Ltd. Corporation purchased a test shipment of steam coal from the Usibelli Coal Mines near Healy for trial in power generators in Korea. Following a successful trial, Sun Eel signed a ten-year contract to buy 7 million metric tons of coal. Last year, Sun Eel, along with Korea Electric Power Corporation agreed to export 800,000 metric tons of coal annually through the coal loading facility currently under construction at Seward. As Usibelli is the only working coal mine in Alaska, this will represent the only regular export of coal from the state.

There is also a coal development project currently underway involving Korea. This is the Bering River Coal field located 60 miles east of Cordova on land owned by Chugach Natives, Inc. This field is being developed by the Bering River Development Corporation, a joint venture between Chugach Native, Inc. and KADCO. Although the coal lies approximately 30 miles from tidewater, and there is no existing transportation or loading facility, the coal has a higher BTU value than the Usibelli coal. To date, no mining has occurred, and it is uncertain if and when this field will actually begin exporting to Korea.

Petroleum. Petroleum exports do not appear to be significant part of the Alaska-Korea trade historically. Of course, export of crude oil, and the potential export of LNG for Alaska's North Slope is restricted by federal law. According to Robert Maynard, Assistant Attorney General, provisions in the Congressional authorization of the Trans-Alaska Pipeline make it almost impossible to export North Slope crude oil, and provisions in the Congressional authorization of the Northwest gasline project make it very difficult to export large amounts of LNG. This limits, to a large extent, the potential for trade in oil. However, in the first eleven months of 1982, Korea imported \$16.6 million worth of urea from Alaska. No urea was exported in the four previous years. We have not obtained any figures for 1983.

It was the general consensus of the individuals I interviewed that Korean firms would be very interested in importing liquified natural gas (LNG) if a gasline was built and might also import oil if federal laws were changed. However, it was mentioned that Korea does have other sources of energy, and that it was not clear the extent to which unrefined Alaska petroleum products would be competitive. Alaska

petroleum does have relatively high extraction costs associated with it. Any decision regarding the export of Alaska petroleum to Korea would be based on the price of Alaska petroleum relative to the price of petroleum from other sources.

According to Robert Breeze, the Korean trading company, Samsung, is considering importing unleaded gasoline and reformat from Alaska to Korea. He also stated that another Korean firm, Sangyong, is considering exporting leaded gasoline and #2 fuel oil from Korea to western Alaska. In addition, Korea Shipbuilding and Engineering Corporation is exploring the possibility of importing residual fuel oil to Korea, to be purchased from Tesoro.

Other Minerals. Although there does not appear to be any Alaska-Korea trade in minerals other than coal and petroleum at this time, both Loren Lounsbury and Robert Breeze mentioned strategic minerals as another source of future trade with Korea. However, as several individuals mentioned, Alaska presently lacks the infrastructure to develop these mineral resources. Presumably, any development of Alaska-Korea trade in this area is dependent on future infrastructure development.

Agriculture

To date, there does not appear to be much agricultural trade between Alaska and Korea. There has been some shipment of beef and livestock from Alaska to Korea; Loren Lounsbury cited an operation near Homer which is currently exporting beef. Robert Breeze stated that two Korean firms are currently attempting to lease University of Alaska lands in the Kenai area for cattle raising. Mr. Breeze stated that current plans call for the firms to export cattle as well as process cattle in Alaska.

Several of the people with whom we spoke mentioned the possibility of exporting barley to Korea. Japan and Korea are considered the primary markets for Alaska barley exports. However, the lack of a grain terminal at railhead appears to be a major impediment in the development of this market.

Finally, an article in Forbes (Attachment I) notes that without the Korean market for reindeer antlers, Nana Corporation's reindeer herd would cease to be an economically viable enterprise. In addition to the antlers, the herd also provides a source of fresh meat for local residents.

Korean Investment in Alaska

We have already discussed many of the areas in which Korea has invested in Alaska in our discussion of joint ventures in resource development. These include timber, fisheries, and coal. It should be noted, however, that joint ventures in fisheries do not usually entail foreign investment onshore. The foreign processor simply buys fish from a U.S. fishing vessel and processes the fish on board.

Mr. Breeze also mentioned that the Korea Shipbuilding and Engineering Corporation has proposed building a ship repair facility in Seward that might eventually include a small rolling mill and some ship building facilities as well.

While many of the individuals with whom we spoke stated that there was the potential for substantial Korean investment, particularly in the extraction of Alaska's natural resources, Korea's Consul General Hwang cautioned that Korean firms are reluctant to invest in the infrastructure necessary to develop some of these resources. He explained that other natural resource producers, such as Canada, are willing to build the necessary facilities to make their resources available to foreign firms at dockside. This reduces the total cost to Korean firms purchasing these products.

Imports

According to those we interviewed, Korean firms provide a significant amount of heavy industrial goods used in Alaska. We have not located any information which evaluates the relative size of Korean exports to Alaska in this field. However, our sources did provide several examples. The Korean firm, Daewoo, delivered a saltwater treatment plant to Atlantic Richfield Corporation on the North Slope last year valued at over \$200 million. The Hyundai Corporation provided the structural steel for the new Sohio building in Anchorage. Hyundai also is erecting the transmission towers for a section of the Anchorage-Fairbanks power intertie. In addition, Hyundai build the bridge at Hurricane Gulch on the Parks Highway in the late 1960s. Robert Breeze also mentioned that cement and electrical transformers were also imported from Korea.

For consumer goods, the potential for import does not appear great. Consul-General Hwang stated that Alaska is generally considered too small of a market to make importing likely. Although many Korean products eventually are consumed in Alaska, these are usually distributed by companies operating out of the contiguous U.S. A small Korean products import trade had existed in Anchorage for some years; however, this primarily serves the Korean community there and is not likely to increase significantly.

Trade Promotion Activities

In addition to actual trade activities, there are a number of activities related to the promotion or enhancement of Alaska-Korea trade which merit mention. For example, for the last several years, delegations of business persons and/or political officials have either gone to Korea, or come from Korea to visit Alaska. According to Robert Breeze, trade delegations have regularly travelled from Alaska to Korea or vice versa for the last few years. Governor Hammond and several State officials (including legislators), made a tour of the Far East to discuss trade in early 1979 (see Attachment H), and Governor Sheffield led a similar delegation last fall.

In 1975, the Korean government appointed Loren Lounsbury, a long-time Anchorage businessman, honorary consul for Korea in Alaska. In 1980, the Korean government established a regular consulate in Anchorage, staffed by a Consul-General.

The Alaska-Korea Business Council, an Alaska organization, was formed a few years ago to enhance trade and other relations between the two locales. A similar organization, the Korea-Alaska Economic Cooperation Committee, exists in Korea.

Several major Korean trading companies have opened offices in Anchorage or announced plans to open offices in Anchorage. These include Hyundai, Sun Eel, Daewoo, and Korea Shipbuilding and Engineering.

Potential for Future Trade

Virtually everyone with whom we spoke stated that there was the potential for greatly increased trade between Alaska and Korea. Export of Alaska's natural resources was cited as the most promising area of trade between the two. It should be noted, however, that the infrastructure necessary to develop many of these resources is not yet in place, and until it is, there are probably limited opportunities for increasing this trade. In addition, federal restrictions on the export of North Slope crude oil and LNG will have to be lifted before Korea can take full advantage of Alaska's petroleum resources.

Among the advantages cited for Alaska as a potential trading partner with Korea are:

- the proximity of Alaska to Korea;
- the quantity and diversity of Alaska's natural resources; and

Representative Hayes
January 17, 1984
Page Nineteen

- the political stability of the United States compared to other resource exporting countries.

The individuals with whom we spoke also cited several negative features which the Koreans see as drawbacks to Alaska as a trading partner, including:

- the lack of adequate infrastructure for resource development;
- the lack of sophistication and expertise of Alaska business firms;
- the lack of consistent, positive State government policy concerning resource development; and
- State and federal restrictions and permit requirements which add time and expense to resource development.

Robert Breeze, Loren Lounsbury, and Bill Bittner, attorney for Hyundai in Alaska, all stated that Korean trading companies are interested in becoming involved in Alaska's infrastructure development, both as a supplier of industrial materials, and as a contractor. Korean companies reportedly have a similar posture toward Alaska Power Authority hydro-electric power projects.

While it appears that Korean companies are neither used to or inclined to invest heavily in infrastructure development, they have begun investing in Alaska's resource development, as evidenced by the Bering River Development Corporation and joint ventures in the timber industry.

* * *

This concludes our research on Korean trade and foreign trade offices. As noted throughout this memorandum, we have supplied several attachments which should be useful to the consultant in preparing his report. We are, of course, willing to assist the consultant in obtaining further information to the degree that time permits. Should you have any questions, or if we can provide further information on any of the issues addressed in this memorandum, please do not hesitate to contact us.

JS

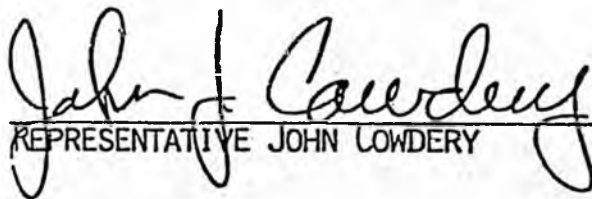
Attachments

cc w/attachments: Michael Gay

REPORT TO THE ALASKA LEGISLATURE
OF THE
LEGISLATIVE MISSION TO JAPAN AND KOREA
JANUARY 14-21, 1984


SENATOR BETTYE FAHRENKAMP


REPRESENTATIVE ROBERT BETTISWORTH


REPRESENTATIVE JOHN COWDERY

JANUARY 24, 1984



REPORT OF LEGISLATIVE MISSION TO JAPAN AND KOREA

I. Executive Summary

This report describes the legislative mission of Senator Bettye Fahrenkamp, Representative Bob Bettisworth and Representative John Cowdery to Japan and Korea. The purpose of the mission was severalfold:

1) to return the visit of Japanese Diet members who visited Alaska in August 1983;

2) to join with Senator Murkowski in requesting Japan and Korea to formally request Alaska oil from the United States government;

3) to let Japan and Korea know of the Legislature's intent to seek a long term resource relationship, particularly energy resources, with those countries as provided in the respective communique signed during President Reagan's November 1983 trip to those countries; and

4) to seek a summit meeting on energy among Japan, Korea, the Republic of China and the United States to form a financing plan for the construction of a gas pipeline and the marketing of the North Slope gas. The briefing material contained in Appendix A was submitted to officials of each government.

The Export Administration Act, which contains the prohibition on the export of Alaska oil, will be considered in mid-February 1984 by the United States Senate. If Japan's and Korea's formal requests for the oil are to do any good, they must be made soon. This legislative mission went at this time to these countries along with Senator Murkowski to show Alaska's solidarity in making this request and to stress the need for immediate action.

In Japan we found continued interest in purchasing Alaskan crude oil if the law can be changed to allow its export. We recommend that Alaska continue to establish relations with our friends in the Japanese Diet who prescribe energy policy for Japan. The interest of these Diet members will insure closer cooperation of the officials in the Ministry of International Trade and Industry (MITI).

On natural gas the Japanese continue to talk of an oversupply of gas extending into the 1990's. The Japanese look to private enterprise to perform any necessary marketing or financing studies. The MITI ministry appears to desire to operate solely within the United States-Japan Energy Working Group. This working group does not now favor an energy summit. Continued efforts with the Diet should be pursued to convince MITI to participate. Further, if Korea and Taiwan agree to a summit meeting, it would be difficult for Japan to refuse to attend.

The Koreans were very positive with respect to the oil and the gas. On oil, Energy Minister Choi stated that Korea wanted to purchase Alaskan oil and that it would point that fact out to the United States government. The Koreans favor the energy summit on gas and have taken preliminary steps with private industry in Korea to participate in the financing and marketing study. We recommend increased efforts with the Korean government to encourage this continued positive attitude.

While the legislative mission did not visit the Republic of China, Senator Murkowski reports from his meetings there during the week of January 9, 1984 that the Republic of China's government has the same attitude as the Korean government with respect to the oil and gas. Again, this attitude should be encouraged.

A word needs to be said about Alaska's Asian Office, which is located in Tokyo. It is the mission's impression that the Office is doing an excellent job. In the opinion of the mission, its effectiveness could be increased if offices were established in Seoul and Taiwan. We urge a review of this proposal by the Alaska Department of Commerce and Economic Development with a report by Commerce to the Legislature during this legislative session. Bill Overstreet, Director of the Alaskan Asian Office, was with the mission in Japan and Korea. His assistance throughout was most helpful and appreciated. The mission is firmly committed to the Asian Office.

It is the observation of the authors of this report that Asians and students of American history recognize that the United States is entering the "Century of the Pacific". Alaska, as a central point in the Pacific Rim geography, should be an integral part of the future trade pattern of the Pacific Rim region. Further, it is our observation that the United States will not be Alaska's primary market in the years and decades to come. We believe that the real market

for Alaskan resources is with and in Pacific Rim nations with which the United States of America has economic and strategic treaties (Japan, Korea, and Taiwan).

Asian countries have historically looked to Southeast Asia for trade and commerce. Those countries must be made aware of Alaska's other resources. This will take an effort by Alaskans. Moreover, Alaskans must be made aware of the potential.

It is our perception that IF Alaska is to maintain its high production in hydrocarbons and IF Alaskans continue to receive revenues it believes it needs, then the State leaders must plan for the future.

It is asserted by some economists and futurists that the center of world commerce has already shifted from the historic north Atlantic to the north Pacific Rim region. We believe this to be true and want our State to be aware of the potentials, opportunities and/or hazards.

II. Recommendations.

It is the opinion of the Alaska legislative mission that for Alaska to realize the promise of that portion of the Reagan/Nakasone communique of November 1983, that calls for Alaska to be the focal point of an energy relationship between the U. S. and Japan and other countries on the Pacific Rim, most notably Korea and the Republic of China (Taiwan), the State of Alaska must be an active party. Recognizing this, we recommend the following:

1. That in cooperation with the Alaska Congressional delegation and the Governor, the Alaska Legislature take an active role in seeking to market Alaska's energy resources in the Pacific Rim, recognizing that such an undertaking will require the expenditure of funds and will probably take some time;

2. That the Alaska Legislature establish a procedure for exchanging visits with members of the legislative bodies of Pacific Rim countries interested in Alaska's energy and other resources, with a view toward establishing with those legislators an understanding of Alaska's resources and the desirability of purchasing those resources. In particular, the Alaska Legislature should support Senator Murkowski's efforts to arrange an energy summit meeting between the United States, Japan, Korea and the Republic of China (Taiwan) with representatives from Alaska in attendance.

3. That the Alaska Legislature assist the Governor and the Alaska Congressional delegation in seeking to lift the ban on the export of Alaska crude oil, including the expenditure of funds for Congressional lobbying and general education efforts, recognizing that this may take some time to achieve.

If Congress fails to lift the ban on the export of Alaska crude when the issue is debated in the Senate in February this year, all appropriate action should be undertaken by the State of Alaska, assisted by the Alaska Congressional delegation, to permit the export of a portion of the State's royalty crude oil. Such actions may include a request by the Governor for an export permit for State royalty crude oil as suggested by Senator Murkowski, or a lawsuit to establish the State's right to sell its own oil as suggested by Congressman Young.

4. That the Alaska Legislature support the efforts of private groups to arrange for marketing of Alaska's gas and financing of a gas pipeline, including marketing of the gas to the Pacific Rim countries. The Alaska Legislature should consider procedures which would require that any foreign companies which obtain contracts to help build the natural gasline, are from countries that agree to provide markets or financing for the gasline.

5. That the State of Alaska take all appropriate measures to assure that existing coal contracts take place on schedule and that additional opportunities for the sale of Alaska coal be found. In proposing this, the Alaska legislative mission recognizes that large scale coal contracts with the Pacific Rim cannot be expected to occur earlier than the mid 1990's. However, some assurance of sales at this time would be of great assistance to the Legislature in making proper decisions for construction of the infrastructure needed for coal development.

6. That the mission of Alaska's Asian Office be expanded to aggressively market Alaska's resources on the Pacific Rim. In this regard we envision its mission for Alaska as similar to that which the Ministry of International Trade and Industry provides for Japan. To perform this function, Alaska's Tokyo office would have to be upgraded and offices established in Seoul and Taiwan. Given the interest in Alaska's resources we have seen in Japan and Korea, the money expended would be a wise investment. We recommend that the Alaska Department of Commerce and

Economic Development study this proposal and report back to the full Legislature before the end of this legislative session.

III. Discussion of Trip Details

The mission left Juneau for Anchorage on January 13th. That evening the mission attended a dinner hosted by Consul General Huang of Korea, to which Consul General Inamura of Japan was invited. Energy matters were generally discussed. The main purpose of the dinner, however, was to firm up the arrangement for the visit. The mission very much appreciated the information provided by the Consuls General.

The mission left Anchorage on January 14, 1984 and arrived in Tokyo on January 15, 1984, having lost a day crossing the international dateline. January 16, 1984 was a holiday in Japan, during which the mission adjusted to the time and was briefed by the Alaska Asian office.

On the evening of January 16, 1984 the mission had dinner at Bill Overstreet's home, which was attended by Senator Murkowski, for the purpose of rehearsing for the meetings. It was decided that after the introduction of the legislative mission by Senator Murkowski, Senator Fahrenkamp, as the mission's senior member, would make the following points:

1. The mission was returning the August 1983 visit of the Diet with the idea of continuing such exchanges in the future;

2. The mission felt it was in the interest of both Japan and Alaska to work to implement that portion of the November 1983 communique from the meeting of President Reagan and Prime Minister Nakasone which named Alaska as the focal point for an energy relationship between Japan and United States;

3. The mission recognized that realizing Alaska's position as the focal point of an energy relationship will take time and commitment, which Alaska for its part was willing to pursue;

4. The mission endorsed the efforts of the Congressional delegation to change that portion of the

Export Administration Act which precluded the export of Alaska oil and the effort to arrange for an energy summit meeting.

It was agreed that Senator Murkowski would speak to these subjects on behalf of the combined group.

The first meeting on January 17, 1984 was a briefing by Ambassador Mansfield. After Senator Murkowski had introduced the legislative mission, Ambassador Mansfield gave an in-depth and exceptionally knowledgeable review of both the oil and gas issues from both the U. S. and Japanese perspectives. He stated his unequivocal support for the export of Alaskan crude oil, Pacific Rim, and promised to be of assistance in any appropriate way. He detailed the numerous publications and occasions in which he had made known his views on this subject. He is clearly a friend of Alaska.

The combined mission met with MITI Vice Minister Komatsu on January 17, 1984. Vice Minister Komatsu is one of the two senior Japanese officials who sit on the U. S.-Japan Energy Working Group. After Senator Murkowski had made the introductions and Senator Fahrenkamp had made the above listed introductory remarks on behalf of the legislative mission, Senator Murkowski made the following points to the Vice Minister:

- 1) The purchase of Alaska's energy resources would provide Japan an opportunity to redress its balance of payment problem with the United States that opening its market to U. S. citrus and beef cannot do;

- 2) The U. S. Senate would soon take up the Export Administration Act, while Japan has informally indicated its desire to purchase 50,000 barrels per day (bbl/d); a formal request by the government of Japan for the oil would be very helpful in Senate debate;

- 3) The group felt that an energy summit among the U.S., Japan, Korea and Taiwan to discuss Alaska oil and gas would be a good means of implementing the Reagan-Nakasone communique as it pertains to Alaska energy resources.

Mr. Komatsu replied that energy is an area where Alaska and Japan can cooperate. Japan told the U.S.-Japan Energy Working Group that it wanted the oil, and the Japan Refiners' Association said the same thing on its trip to Washington, D. C. Mr. Komatsu said that that request

constituted a "formal" request. Japan believes that lifting the crude oil ban is critical. However, it understands that lifting the export ban will be difficult in the short run; this must be a long-term effort.

Mr. Komatsu declared that the potential exists for Japan's purchase of LNG from Alaska in the 1990's. The development of this potential is up to private enterprise in each country.

Mr. Komatsu said that coal is also the responsibility of private industry, although there are many more difficulties connected with this resource than with LNG.

On January 17th the combined delegation met with Mr. Nagayama of the Japan Refiners' Association and his staff. After Senator Murkowski and Senator Fahrenkamp had made their prepared presentations, Senator Murkowski stated that the Export Administration Act and Senator Murkowski's amendment to allow the export of Alaska oil will be debated in February. The Senator described the proposed amendment and advised Mr. Nagayama that there is strong objection by the maritime unions to the export of Alaska oil. If this objection can be overcome there will be a market in the U. S. for replacement oil from Mexico and an opportunity for Japan to redress its balance of payments problems with the U. S. A formal request for the oil from Japan to the U. S. would help in the Senate debate.

Mr. Nagayama replied that he had made a request for the oil during his trip to Washington, D. C. on the issue. Furthermore, he felt that the Japanese side had requested the oil during the U. S.-Japan Energy Working Group discussions. Mr. Nagayama said he understood that it would be politically difficult to have the amendment pass.

Mr. Nagayama expressed concern about that portion of the Senator's proposed amendment that called for the oil to go to Japan on U. S. bottoms. He stated that he was concerned that this would make the price of the oil commercially unreasonable. A discussion then ensued which explained to Mr. Nagayama that the transportation price would be absorbed at some point in the distribution system and thus Japan would pay no more than the market price for the oil. Mr. Nagayama replied that even if the delivered price were the same the U. S. tanker proviso precluded Japanese oil companies from using their tankers which were surplus to the present demand. Dr. Thayer responded that

having the oil on American tankers provided security to the Japanese, because it would be an act of war to stop an American tanker. Mr. Nagayama acknowledged the point.

Mr. Nagayama then expressed concern that the proposed amendment called for the oil to be cut off in case of an emergency. Senator Murkowski explained that this was because Japan as an OECD nation would receive oil pursuant to the International Energy Act were there to be an emergency.

Mr. Nagayama stated that he agreed that importing Alaska crude oil would go a long way toward resolving Japan's imbalance of trade problems. He had spoken with people during his U. S. trip on the issue who had told him that changing the balance with Alaska oil was not a desirable way to do it. The reason he had been given was that this would possibly take the pressure off Japan to resolve other trade difficulties. He thus expressed concern that even if Japan purchased the oil, U. S. criticism of the trade imbalance would continue.

Nevertheless, Mr. Nagayama believed that Japan should buy limited quantities of oil to reduce the balance of payments problem. Furthermore, he felt it important to diversify Japan's source of supply and reduce its dependence on Middle East oil.

Senator Murkowski responded by saying that the efforts of the U. S. ^{more} in Lebanon and the Middle East to secure peace were of ~~less~~ ^{more} benefit to Japan than the U. S. because the U. S. was ^{more} dependent than Japan on oil from that area. Mr. Nagayama reiterated the desirability of a diversified oil supply but said it would be inappropriate for him to comment on the Lebanon situation.

There was some confusion on the Japanese side regarding the 200,000 bbl/d amendment. Mr. Takahashi asked if this represented royalty oil only. Senator Murkowski replied that the 200,000 bbl/d represented oil from all sellers including the State. The Senator said that the 200,000 bbl/d was selected because it was the amount of oil which could be sold without causing a job loss among existing maritime workers as a result of oil export. He cited the Putnam, Hayes and Bartlett report prepared for Alaska Lumber and Pulp Co., Inc. (ALP) as the authority for this proposition. He said it was only a coincidence that this 200,000 bbl/d was the same amount as the total of the State's royalty oil. Mr. Ishiyama of ALP later informed members of the group that because of the political good will

involved with it, the Japanese are far more interested in State royalty oil than oil from the other producers. As Mr. Ishiyama understood it this had a lot to do with the fact that the Japan Refiners' Association had expressed interest only in 50,000 bbl/d of royalty oil.

Representative Bettisworth told Mr. Nagayama that Alaska looked upon the oil export issue as a long-term proposition. He said the Alaska Legislature expected to push hard to achieve oil export over whatever period it took to succeed. During this period he hoped that further visits between the Diet and the Alaska Legislature could be arranged.

The combined group then met with Mr. Murata, the Director General of the Economic Affairs Bureau of the Ministry of Foreign Affairs. After Senator Murkowski and Senator Fahrenkamp made their initial presentation Senator Murkowski explained the amendment he intended to introduce to the Export Administration Act to permit the export of a limited amount of Alaska crude oil. Senator Murkowski told Mr. Murata that it would enhance chances for the amendment's success if Japan would formally request the oil. The Senator pointed out that the State of Alaska was prepared to spend money to help get the amendment passed. The Senator said that passage of this amendment would help the Japanese avoid criticism due to the balance of payments problem. The Senator then outlined his proposal for an energy summit.

Mr. Murata responded that Japan would like to purchase Alaska crude oil in order to diversify its sources of supply and to help its balance of payments problem. He stated that Japan was reluctant to make a formal request for the oil because it could be interpreted to be interference with the internal affairs of the United States (i.e., the deliberations on the Export Administration Act). Accordingly, the problem has "chicken and egg" aspects: Japan says the U.S. should make the oil available before it takes action to purchase it; Senator Murkowski wants Japan to indicate a desire to purchase the oil first.

Senator Murkowski stated that it would be very embarrassing if the U.S. lifted the oil export ban only to find that Japan was not interested in purchasing any oil. He stated that it was difficult to understand the rationale for Japanese refusal to make a formal request for the oil when Taiwan had agreed to do so. It was anticipated that Korea would also do so. The Senator pointed out that the U.S. was securing Japan's oil supply as well as that of the United States by its actions in the release. Thus, it was

hard to understand why the Japanese invested in Sakhalin rather than Alaska. The Senator asserted that it would be much better if Japan invested in Alaska.

Mr. Murata asked what would happen if no amendment to the Export Administration Act allowing crude oil export was achieved in February. Senator Fahrenkamp responded that Alaska would try again. She stated that the State Legislature was prepared to spend money to obtain the amendment but recognized that it could take some time to have this happen.

On January 18, 1984 the combined group met with Minister Okonogi, the Minister of International Trade Industry. Senator Murkowski and Senator Fahrenkamp made initial remarks as outlined previously. Senator Murkowski then stated that purchasing crude oil from Alaska would help Japan reduce the balance of payments problem. The Senator declared that opening the beef, citrus food barriers to U.S. producers would not provide sufficient balance of payment offset. The Senator stated that the answer to the balance of payments problem was not for the U.S. to restrict import of Japanese products, but for the Japanese to buy more U.S. products. The Senator then described his proposal for an energy summit as outlined above. Mr. Okonogi replied that he will be in Washington, D.C. at the end of the month and these issues will be discussed. Mr. Okonogi said he preferred using the U.S.-Japan Energy Working Group in the energy summit proposal, but would consider the proposal.

Senator Murkowski pointed out that Vice President Bush has responsibility to follow through on the Reagan/Nakasone communique. He stated his intention to meet with the Vice-President concerning the energy summit.

The combined group then had lunch with three of the four Diet members who had visited Alaska in August, 1983: Namely Mr. Watanabe, Mr. Harada, and Mr. Yosano. Mr. Kato, a Diet member interested in energy, also attended. Mr. Uetake, a former Diet member, was present as was Mr. Matsune, Chairman of Alaska Kai. Mr. Nakayama, senior counselor to the Industrial Bank of Japan, and a long-time friend of Alaska, attended as did Ishiyama, the President of Alaska Lumber and Pulp Company. The discussion focused on the desirability of exchanging visits between Diet members and members of the Alaska Legislature. Senator Fahrenkamp expressed the view that Alaska was prepared, on its part, to take the actions necessary to implement that portion of the Reagan/Nakasone communique which calls for Alaska to be the focal point of an energy relationship between Japan and the

U.S. Minister Watanabe stated that this was a worthwhile goal which he would be unable to pursue because of his recent promotion to Minister of Health and Welfare. He stated that the other Diet members present were prepared to be helpful in the effort. In their various remarks the Diet members expressed an interest in the energy summit proposed by Senator Murkowski and promised to consider it.

Following lunch the Alaska legislative mission held a press conference with the Japanese press. Senator Fahrenkamp presented the points she had made in meetings with government officials. The press was extremely interested in the oil and gas issues and the interview had to be terminated to allow the mission to take the flight to Korea.

The combined group was met at Kimball International Airport on the evening of January 18, 1984 by former Korean Energy Minister S.K. Lee, a strong advocate of development of Alaska's energy resources. The group was joined by another long-time friend of Alaska, Mr. T. J. Kim at the Shilla Hotel.

The first meeting of the morning of January 19, 1984 was breakfast with the corporate leaders of Sun Il Corporation concerning its coal purchase contract with Usabelli Coal Company. The group was assured that the project was on schedule.

The combined group then received a briefing from Mr. Walter Lundy, economic counselor to Ambassador Walker. Mr. Lundy briefly outlined the dramatic expansion of the Korean economy in the last ten years. The Korean economy is growing at approximately ten percent per year. Much of this is due to the expanding domestic market in Korea. The Koreans are presently trying to enter the export market and participate in the hi-tech area. For the first time, Korea will have an unfavorable balance of payments problem with the United States in 1983 - approximately \$1 billion. The Koreans are extremely worried about this.

Mr. Lundy felt that the Korean government would respond favorably to the proposal of formally requesting oil and to the idea of an energy summit. He warned that due to their recent prosperity the Koreans had been deluged with requests to purchase foreign goods. The Koreans have sufficient energy in the short run, but need assured, long-term supplies over the long run. Mr. Lundy viewed the

creation of the five company consortium to participate in the marketing and financing study of the gas as very favorable.

Mr. Lundy advised that although there was no specific mention of Alaska, as there had been in the Reagan/Nakasone communique, the communique between President Reagan and President Chun in November, 1983 contained a paragraph in which the United States pledged to be an energy supplier to Korea and to help Korea obtain energy resources in case of emergency. Mr. Lundy suggested that in its discussion with the Korean government, the group point to this paragraph as the basis for its proposal that the Koreans make a formal request for oil and an energy summit meeting. Mr. Lundy stated that the embassy would provide all possible assistance in achieving these goals.

The combined group met next with Minister of Commerce and Industry Kum. After Senator Murkowski and Senator Fahrenkamp had made their opening statements Senator Murkowski urged that the Korean government make a formal request for crude oil from Alaska that there be a four nation energy summit meeting. Mr. Kum responded that while Korea was interested in purchasing energy resources from Alaska, the specifics of that discussion would have to await the group's meeting with Energy Minister Choi. Mr. Kum stated that Korea would buy the oil if the export ban were lifted and asked Senator Murkowski to explain the procedures for changing the law. Following Senator Murkowski's explanation, Senator Murkowski did give reasons why Alaska was looking to Pacific Rim as a market.

The combined group had lunch with National Fisheries Administrator Kang. After an exchange of introductions, Senator Murkowski applauded Korea's adherence to the 200-mile limit. He asked if the Korean government was interested in obtaining more joint ventures with Alaska fishermen as opposed to fishermen from elsewhere. The conversation centered on these two points.

In the afternoon the combined group met with Ambassador Walker. The Ambassador stated his support for the export of Alaska crude oil and for the energy summit meeting. He promised to do everything he could to assist in Korea's purchase of natural gas from Alaska. To that end he planned to host a dinner for Yukon Pacific officials in the five company consortium which had agreed to do the financing and marketing study on the gas during Governor Bickel's visit in February, 1984. Senator Fahrenkamp thanked the

Ambassador and explained that Alaska intended to aggressively market its resources on the Pacific Rim and to make any necessary changes in federal or state law toward that aim.

The combined group then met with Minister Choi, Minister of Energy and Resources. Senator Murkowski and Senator Fahrenkamp made opening remarks. Senator Murkowski asked that Korea make a formal request for Alaska oil and that there be an energy summit between the U.S., Korea, Japan and the Republic of China (Taiwan). Senator Fahrenkamp asked the Minister to assist in making certain that the coal contracts between Sun Il Company and Usabelli Coal Company occur on schedule.

Minister Choi stated that Korea wanted to diversify its sources of energy supply. Korea would buy Alaska crude oil if it were made available and would seriously consider making a formal request for it. He said that while there was no need for gas right now because of purchases from Indonesia, his ministry's upgraded projections show a need by 1989. Accordingly, his ministry would assist private enterprise of Korea to coordinate Korea's portion of the financing and marketing feasibility study. Minister Choi said that he is uncertain that the Sun Il/Usabelli contract would occur on schedule. The Minister said that he views favorably the proposed energy summit. He then asked Senator Murkowski to explain his proposed amendment to export crude oil and to describe the prospects for passage in the Senate.

Senator Murkowski gave a detailed account of the proposed amendment. He stated that changing the law would be a hard fought battle. Accordingly, he appreciated the Minister's consideration of the proposal that Korea make a formal request for the oil as this would be a great help.

The group then met with Mr. Lee, Chairman of the Board of Samsung Corporation. Senator Murkowski pointed out that the gasline construction would involve assistance from companies such as Samsung. The Chairman stated that Samsung Corporation had always looked for natural resources, particularly in the United States, and more specifically Alaska.

The combined group then met with the President of the Korean Electric Power Company, Mr. Park. After Senator Murkowski and Senator Fahrenkamp had made initial remarks, Senator Murkowski stated that he hoped that the Sun Il Usabelli coal contract would go forward as scheduled. He was assured by Mr. Park that it would. Senator Fahrenkamp

then brought up the issue of all of Alaska's resources focusing specifically on Alaska's energy resources. An informal discussion ensued regarding the opportunities for marketing those resources on the Pacific Rim.

At this point Senator and Mrs. Murkowski left the group to return to the United States. Following departure of Senator Murkowski the discussion continued and was led by Senator Fahrenkamp.

The legislative mission met for breakfast on January 20, 1984, to discuss the points it would make in its meetings during the day, all of which were with Korean companies interested in Alaska's energy resources and their construction projects in Alaska. It was decided that Senator Fahrenkamp, as senior member, would make the following points at each of the meetings:

1. That the Alaska Legislature intended to make a major effort to market Alaska's resources on the Pacific Rim.

2. That the mission has come to Japan and Korea at this time to demonstrate the Alaska Legislature's support of the congressional delegation's effort to lift the ban on the export of Alaska oil to the Pacific Rim.

3. That this issue will be debated in Congress in mid-February. The Alaska legislative mission believes that the ban on Alaska crude oil exported is inconsistent with Paragraph 12 of the communique between President Chun and President Reagan, which provided that the U.S. would be a reliable supplier of energy and help Korea obtain stable energy supplies.

4. That the legislative mission urges the Korean government to contact the U.S. government to formally request the Alaska oil. In particular the U.S. Defense Department should be contacted regarding Korea's desire for the oil.

5. That Alaska has extensive natural gas supplies. Senator Murkowski is trying to put together a four-country energy summit meeting to discuss financing and marketing of the gas.

6. That the Alaska legislative mission understands that former Governor Hickel will be in Korea in February to discuss the natural gas issue. Ambassador Walker told the mission yesterday that he will help coordinate that visit

with key industry leaders. The Alaska legislative mission supports this initiative.

7. That coal is one of Alaska's major resources. Contracts have been entered to sell Alaska coal to Korea. The legislative mission is delighted to learn that arrangements for coal delivery are still on schedule. The Alaska legislative delegation would like to see more coal sold in Korea.

8. That in April a delegation from the Alaska Loggers' Association will be in Korea to discuss Alaska's timber resources. The Alaska legislative mission urges the Korean business community to work with the Alaska timber industry to sell more of Alaska's timber in Korea.

The Alaska legislative mission met with Fisheries Minister Kang for lunch. The Alaska legislative mission applauds the efforts made by the Korean fishing industry to comply with the requirements of the 200-mile limit and requests that the Korean fishing industry enter into more joint ventures with Alaska fishermen.

The mission met first with Mr. Kim, President of Ssangyong Construction Company. Senator Fahrenkamp made the remarks outlined above. Mr. Kim expressed the hope that Korea would enter into a long-term energy relationship with the United States. He stated that his firm had purchased some Alaskan coal in connection with its cement plant operations, but the coal was wet and had to be mixed with other coals. Ssangyong is not now using Alaska coal.

Mr. Kim expressed his company's interest in any construction contracts which may arise from construction of the gas pipeline. Senator Fahrenkamp responded that it was her personal view that in awarding such contracts consideration would be given to companies of nations that participated in the financing and marketing of the gas and were themselves helpful in causing the project to happen.

The legislative mission then met with officials of the Doosan group. Senator Fahrenkamp made the points outlined above. Mr. Keh stated that Korea was interested in Alaska's resources. While Doosan was smaller than the big Korean trading companies, he was quite interested in those resources and also interested in participating in the construction of the natural gasline. Senator Fahrenkamp repeated the point about assistance causing the project to happen, previously made to Ssangyong officials.

The group met next with Mr. Cheon of Hyundai Construction Company. Hyundai is the largest of the Korean trading companies. Mr. Cheon stated that he had prior experience in construction projects in Alaska. He plans to be in Alaska in April. He expressed interest in construction of the gas pipeline. Senator Fahrenkamp repeated what she had told the other companies. Mr. Cheon wanted to know if the Hyundai built the project, could it be paid in natural gas. Representative Bettisworth stated that in his opinion, this was the only way the project would work. General discussion about Alaska's potential then followed.

The legislative mission then met with Mr. Roh, Vice Chairman of the Federation of Korean Industries (FKI), which is similar to the Keidenren. Mr. Roh stated that approximately 400 of the largest Korean companies are members of FKI. The FKI makes recommendations to the government after reaching an internal consensus.

Senator Fahrenkamp delivered her prepared remarks, whereupon there was a general discussion about the desirability of Korea purchasing Alaska's energy resources and other resources. Mr. Roh stated that the business community was anxious to expand its activities in Alaska.

Following the FKI meeting, the legislative mission was met with Mr. Lee, Vice-President of Daelim Construction Company. After Senator Fahrenkamp delivered her prepared remarks there again was a general discussion about construction activity in Alaska. Senator Fahrenkamp repeated her remark that any construction company that participated in the natural gas line would have to be from a country which participated in the financing and marketing study and itself was helpful in causing the project to happen.

In the evening the group attended a reception put on by Ambassador Walker for the Alaska legislative mission and a congressional mission which was then in Korea. During the course of this reception, members of the Alaska legislative mission had the opportunity to talk with members of the Korean National Assembly and with members of Congress regarding these energy issues. In particular, there was an opportunity to talk with Congressman Jack Hightower of Texas. Congressman Hightower stated that the congressional attitude against exporting Alaska oil was not strongly held, although he doubted it would pass the Congress at this time because of the power of maritime unions. The members of the National Assembly with whom conversations were conducted were very anxious that the oil export ban be lifted and that Korea participate in the purchase of Alaska's energy

resources. Members of the legislative mission also talked with Ambassador Walker and economic counselor Lundy and were promised all possible support from the Embassy in assisting the legislative mission in achieving its goal.

On Saturday, January 21, the Alaska legislative mission traveled to Pamunjon. The purpose of the trip was primarily to view the demilitarized zone and, secondarily, to experience first hand, Korean life which has been dramatically affected by its relationship with North Korea.

IV. Conclusion.

In conclusion, we believe that the objectives of the mission we set out to achieve were accomplished. However, much more work needs to be done. In this regard, we would urge that the recommendations made in Section II of this report be adopted.

*FROM SEN. MURKOWSKI'S SPEECH
2/16/84*

ISSUE, WE WOULD FAIL TO SHOW CONGRESS HOW IMPORTANT IT IS TO US. WE COULD LOSE THE OPPORTUNITY THE EXPORT ADMINISTRATION ACT HAS PRESENTED US TO MAKE OUR CASE FOR ALASKA OIL EXPORT.

BUT THERE'S MORE AT STAKE THAN JUST OIL.

EXPERTS PREDICT THAT THE 21ST CENTURY WILL BE THE CENTURY OF THE PACIFIC, AND THE POWER CENTER OF COMMERCE AND TRADE WILL SHIFT FROM THE ATLANTIC COAST TO THE PACIFIC.

ONE REASON FOR THE SWITCH IS THE INCREDIBLE GROWTH AND DEVELOPMENT WHICH IS EXPECTED TO OCCUR IN JAPAN, TAIWAN, SOUTH KOREA AND OTHER PACIFIC RIM NATIONS. ALASKA'S POTENTIAL TO SERVE AS A RESOURCE STOREHOUSE FOR THAT REGION IS VIRTUALLY LIMITLESS. MORE THAN A BILLION DOLLARS' WORTH OF OUR NATURAL RESOURCES WERE EXPORTED TO THE FAR EAST IN 1981.

IT IS MY GOAL TO DO ALL I CAN AS CHAIRMAN OF THE SENATE FOREIGN RELATIONS SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS