

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILE 8672

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SECTION ONE

Summary

In the past few years eleven of twelve states have repealed their worldwide combined apportionment statutes. In its place they have adopted either a water's edge or domestic combination method for calculating the corporate net income tax. Alaska remains as the only state applying combination and apportionment on a worldwide basis.

Alaska's policymakers are facing increased pressure to change its tax law. This pressure comes from such diverse entities as the United States Treasury Department, Pacific rim and European governments and foreign based businesses. Before offering legislation to effect such a change, this administration must carefully consider the ramifications such a change may have on its economy and on the ability of the state to generate revenues to fund public services.

This briefing paper analyzes our current income tax structure, providing both the proponent and opponent viewpoint on it and several alternatives. The Department of Revenue has recently begun a study to determine the potential effects of changing our worldwide unitary tax structure to a water's edge or domestic apportionment, or to a separate accounting type of tax. Until that study is completed, it is not possible to accurately predict the revenue impact a law change would create.

Finally, the Department of Revenue recommends that a comprehensive analysis of the intended and predictable economic impacts on the state be conducted. A change in tax structure in exchange for or in expectation of an increase in private sector economic development must be weighed against the increased difficulty state and local governments are having in providing necessary services to its citizens, as well as any impact it may have on small Alaska businesses.

DEFINITION OF TERMS

1. Unitary Business

If the operation of the portion of the business done within the state is dependent upon or contributes to the operations of the business outside the state, the operations are unitary. The business is characterized through functional integration, centralization of management and economics of scale.

2. Combination (or combined report)

When an operation is unitary, the separate corporate members' incomes are combined, before applying the apportionment formula (three factor formula).

3. Worldwide Combination

When members of a unitary group of corporations include subsidiaries incorporated in a foreign country, or where the parent company is a foreign corporation, and the incomes of the foreign companies are combined before applying the apportionment formula. Alaska is the only remaining state utilizing full worldwide combination.

4. Domestic Combination

An apportionment method which includes in apportionable income the profits of U.S. affiliates no matter where earned. Foreign affiliates income is not included.

5. Water's Edge Apportionment

An apportionment method which limits the scope of the unitary business to the domestic operations of U.S. affiliates. Income from foreign operation, branches or affiliates is not considered, though some states may tax the dividends paid by a foreign affiliate to a domestic parent company.

6. Separate Accounting Method

Each corporate taxpayer computes its income *only* on the basis of receipts and costs related to its instate activities, without reference to their out-of-state branches, subsidiaries and affiliates. This method needs no apportionment formula.

7. Apportionment Factor

A formula used to determine a state's share of a multijurisdictional business' taxable income. The formula is usually based upon factors of property, payroll and sales in the state, because of their close link with income producing activities.

EXAMPLES

To illustrate the various methods of apportionment, the following example is offered. Assume Company ABC is an integrated steel company with three affiliated companies, A, B and C.

Facts

Company A: Coal mining operation in Alaska.

Company B: Steel Company in Pittsburgh, 100% subsidiary of A.

Company C: Sales company in Canada, 100% subsidiary of A.

Branch A-1: Coal mining operation in Australia, branch of company A.

Separate Accounting

Company A would file its tax return in Alaska and report only those receipts and costs related to its instate business. Sales between A and B must be determined on an arms length basis for tax purposes even though the companies books and records may report them differently.

Water's Edge Apportionment

Company A and B if unitary, will combine and their combined incomes will be apportioned using the three factor formula. Because Branch A-1 and Company C are not domestic, they cannot combine with the foreign coal mining and sales operations. Some water's edge methods tax the dividends Company C would pay to Company A.

Domestic Combination

Company A and B will combine, including Company A's Australian branch. In some cases, dividends from C may be included in apportionable income.

Worldwide Combination

Companies A, B, and C, including A's Branch, will combine and apportion their entire income. This is the current tax method used by Alaska for both petroleum and non-petroleum taxpayers.

WHAT IS THE UNITARY BUSINESS PRINCIPAL?

More than two dozen states use the unitary method of determining how some corporations figure their income tax, but what exactly is the unitary method? Sometimes it is referred to as a "unitary tax" or a "new tax" on income earned outside the taxing state. It is not a new tax or even a separate tax but a theory or accounting method which some corporations subject to Alaska tax must use to figure out what portion of their income is attributable to Alaska. This method is called the combined income approach. If a unitary group exists, all of the group's income is subject to apportionment based on their use of the state market place. That means that the taxpayer must determine what portion of its income is attributable to Alaska. The amount of tax any company pays to Alaska is determined on the basis of the ratio of its activities in Alaska to its activities everywhere else. The formula method measures the level of business activity conducted in the state. The more or less business in Alaska, as measured by property, payroll and sales factors results in a corresponding reduction or rise in the amount of income subject to tax. The unitary method of taxation is designed to tax corporations based on their actual business relationships rather than the mere form of their relationships.

SECTION TWO

WHAT IS A UNITARY BUSINESS?

AS 43.19 provides how unitary business are taxed. The law applies to two or more corporations conducting a single or unitary business. These corporations must have over 50% common ownership and the business activities must be of mutual benefit, dependent upon or contributory to the activities of one or more of the other corporations in the unitary group.

Whether or not a business is unitary is decided by looking at all phases of the business' operation, its overall management and the relationships between its operating branches or departments

Whether there is a unity of ownership (over 50% common ownership), operation and use are the three factors which are considered in determining if a business is unitary. Unity of operation is present if there is centralized advertising, accounting, financing, management, and group or committee purchasing. Unity of use occurs when the same group of people (the executive force) perform managerial functions for the group. Courts have recognized these characteristics as proof that a corporation is a member of a unitary business.

HOW DOES ALASKA'S LAW WORK?

Once it is determined that there is a unitary group, each member of the group which does business in Alaska must file a tax return which reflects the income of the entire group. Corporations which do not do any business in Alaska need not file a return in Alaska. Each corporation filing an Alaska return must compute their taxable income using the standard three factor formula, or in the case of oil and gas production and pipeline companies, a modified formula. These formulas may be stated as follows:

STANDARD 3 FACTOR APPORTIONMENT FORMULA

Alaska Taxable Income = Total Apportionable Income X

$$\frac{\text{property, payroll and sales in-state}}{\text{total property, payroll and sales everywhere}}$$

**MODIFIED APPORTIONMENT FORMULA FOR OIL AND GAS
PRODUCERS**

Total Apportionable Income X

$$\frac{\text{Property in this State} + \text{AK Barrels or MCF extracted}}{\text{Total Property Everywhere} + \text{Total Barrels or MCF extracted}} \times 2$$

**MODIFIED APPORTIONMENT FORMULA FOR PIPELINE
COMPANIES**

Total Apportionment Income X

$$\frac{\text{Property in this State} + \text{Sales in this State}}{\text{Total Property Everywhere} + \text{Total Sales Everywhere}} \times 2$$

**MODIFIED APPORTIONMENT FORMULA FOR COMPANIES IN OIL
AND GAS PRODUCTION & TRANSPORTATION**

Total Apportionment Income X

$$\frac{\text{Property, Extraction and Sales In-State}}{\text{Total Property, Extraction and Sales Everywhere}}$$

**ANSWERS TO SOME COMMON QUESTIONS ABOUT THE UNITARY
THEORY**

1. ***Q. If each state taxes a portion of a unitary group's income, isn't it likely that double taxation will occur?***

A. The issue of double taxation has been raised many times before the courts, but no case has ever shown an instance where the combined income approach inevitable resulted in double taxation.

Two or more states which use the separate accounting method may also arrive at conflicting conclusions as to how income is taxed. A recent Supreme Court decision (Container Corporation of America vs. Franchise Tax Board 103 S. ct. 2933, 2954, (1983)), recognized this possibility when it stated "it would be perverse, simply for the sake of avoiding double taxation, to require California to give up one allocation method that sometimes results in double taxation in favor of another allocation method that also sometimes results in double taxation."

The fact that many states use the three-factor formula minimizes the possibility of double taxation.

2. Q. The unitary theory is unfair because it gives a break to companies with out-of-state losses and penalizes companies with profitable business operations. Shouldn't profitable businesses be encouraged?

A. Corporations with out-of-state losses and in-state gains appear to getting a tax break because they pay tax based only on their profitable Alaska business but on the whole their business is less profitable. Their fair share of tax to Alaska may actually be less than what they would pay under separate accounting.

Corporations which pay more tax to Alaska, based on their overall profitable business operations are just paying their fair share of tax to Alaska. The fact that corporations which earn more income pay more taxes is not a penalty. When corporations are so unfortunate as to suffer losses, it really would penalize them if they were required to pay higher taxes. Corporations plan to make profits. They rarely go into business to lose money.

3. Q. Does the use of the unitary method tax Alaska corporations on the income of separate businesses which have no connection with Alaska?

A. It is a well established legal principle that states may tax income arising out of activities conducted in different states if there is a connection between the out-of-state activities and the taxing state. There must be a rational relationship between the out-of-state activities and the in-state activities and the taxing state. There must be a rational relationship between the out-of-state activities and the in-state activities. If there is a unitary group

as defined above, the members of the group are operating as a single business. That business' out-of-state activities are related to its in-state activities. In other words the so-called "separate" businesses do have a connection to Alaska. If some part of that single business is conducted with Alaska, Alaska may tax that business. Because that business does not operate entirely in Alaska, Alaska can only tax the fraction of income which is related to Alaska. As explained above, the three factor formula is used to determine what this percentage is.

If a business which does not operate in Alaska is truly separate, in the sense that it is not part of the unitary group which has operations in Alaska, it is not included on the combined report and its income is not taxed by Alaska. Only the income of businesses which do have a connection to Alaska are included on the combined report.

4. Q. How does Alaska's law differ from unitary laws of other states?

A. Alaska's unitary law is similar to unitary laws in several other states but there are a few significant differences. Alaska's statute applies to corporations which are created or organized in any country in the world. (Other states' statutes may apply only to corporations organized in the United States.)

Alaska allows corporations to use an equally weighted arithmetic formula or formula which weighs sales, property and payroll the same. A few states use a formula which weighs one or more of the factors to a greater degree or eliminates one or more of the factors.

Some states, including Alaska, include sales in the part of the sales factor attributable to that state if they are not taxable to any other state. This is called a "throwback" rule because sales not taxable elsewhere are thrown back and treated as a sale which occurred in that state.

5. Q. How does Alaska's unitary statute affect the business community?

A. There has been a lot of discussion about Alaska's "business climate." Because Alaska's unitary statute is over 20 years old general observations can be made concerning its overall impact. Although Alaska's economy is dominated by domestic oil production, foreign investment has been heavy over the years in the fisheries, timber and tourist industry. Alaska's unitary concept applied to all corporations (except big oil from 1978 through 1981)

has been one of the most stable aspects of a state's business climate. Its corporate taxation method, while important to many businesses, is only one factor to consider. California has used the unitary method since the late 1930's and its economic growth has been ranked at or near the top in comparison to other states.

Small businesses and companies which conduct their entire business within Alaska may benefit from Alaska's unitary statute because they are able to take losses currently. Several studies indicate that small businesses create more new jobs than larger businesses. Higher employment rates contribute to a stronger state economy. A healthy economy is always good for business.

Some segments of the business community object to combined reporting, but other segments of the business community support it. For example, the National Federation of Independent Business has testified before Congress in support of combined reporting.

6. *Q. What are the arguments against the worldwide combined reporting method of unitary taxation as compared to those against separate accounting or an arm's length method?*

A. The opponents of the worldwide method make various claims in support of the arguments to abandon the method. These include the following:

- - it may result in double taxation of the same income unless all countries adopt the method.
- - it may interfere with international trade and impede new investment in the United States.
- - foreign based corporations may have a greater income distortion since they have a greater proportion of foreign to U.S. activities.
- - it departs from the international norm of arm's length or separate accounting.
- - it gives rise to foreign threats of retaliation against U.S. based companies.
- - it is administratively burdensome for corporations and domestic companies may not have access to the information concerning a foreign parent or other subsidiaries.
- - it is difficult to define the parameters of a unitary business which gives rise to taxpayer uncertainty.
- - states apply the concept nonuniformly.

The proponents of the method voice the following concerns on the use of separate accounting or the arm's length method:

- - it fails to accurately measure income and may lead to undertaxation in organizations that are functionally integrated, have centralized management, and share economies of scale.

- - it is administratively burdensome for states and taxpayers because of the millions of transactions that must be reviewed in order to source income among the various jurisdictions and the lack of free access to foreign information.

- - states lack the resources to administer it effectively which can result in the tax burden being shifted away from multinational corporations to smaller domestic companies.

- - the allocation of indirect expenses and the determination of value in intracompany transfers is extremely difficult, can be based on arbitrary criteria, can vary from one company to another, and is nearly impossible to audit in large multinational companies.

- - the rules and level of implementation at the international level are not uniform and it departs from the accepted method of state taxation based on apportionment.

- - it has been criticized by the General Accounting Office for failing to provide consistent, equitable measurement of income.

SECTION THREE

FACTORS AGAINST WORLDWIDE APPORTIONMENT

1. Taxpayers believe it exposes them to double taxation;
2. Taxpayers believe it burdens them with excessive bookkeeping requirements;
3. Distorts international flows of trade and investment;
4. Upsets longstanding agreements among the nations to achieve tax harmony;
5. Limits federal government's ability to conduct consistent international economic policy;
6. Invites retaliation by nation's trading partners;
7. Violates the Constitution.

FACTORS FAVORING WORLDWIDE APPORTIONMENT

1. Prevents corporations from evading taxes by misrepresenting the geographical allocation of their income;
2. Easier to administer than various separate accounting methods;
3. Generally, worldwide apportionment increases a state's corporate income tax revenue.
4. On a domestic basis, apportionment has been court approved.

Figure 1

How Much Income Did A Corporation Earn In Alaska?

Alternative Methods:

Separate Accounting Principle

Separate Accounting

$$\text{Alaska Sales} - \text{Alaska Expenses} = \text{Alaska Net Income}$$

Unitary Principle

Water's Edge Reporting Method

$$\frac{\frac{\text{Alaska Sales}}{\text{U.S. Sales}} + \frac{\text{Alaska Assets}}{\text{U.S. Assets}} + \frac{\text{Alaska Payroll}}{\text{U.S. Payroll}}}{3} \times (\text{U.S. Sales} - \text{U.S. Expenses}) = \text{Alaska Net Income}$$

Worldwide Combined Reporting Method

$$\frac{\frac{\text{Alaska Sales}}{\text{Worldwide Sales}} + \frac{\text{Alaska Assets}}{\text{Worldwide Assets}} + \frac{\text{Alaska Payroll}}{\text{Worldwide Payroll}}}{3} \times (\text{W.W Sales} - \text{W.W. Expenses}) = \text{Alaska Net Income}$$

TAB 9

No. 113/October 1988

— BIMONTHLY —

KEIDANREN

on Japanese
Economy **REVIEW**

In This Issue:

Strengthening the Multilateral Free Trade System

A Keidanren proposal to the government calls for steps to reduce Japan's trade surplus, improve the quality of life, promote free trade and prevent investment friction.

Japanese Direct Investment In U.S. Gains Momentum

The Council for Better Investment in the U.S. report discusses trends in Japanese direct investment in the U.S. and related problems.

Investment from Japan Essential to Diversification of State Economies

Hideo Ishihara, leader of Keidanren investment mission to the U.S., reports on the investment climates and prospects in Alaska and Hawaii.



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KEIDANREN is a private and non-profit economic organization which represents virtually all branches of economic activities in Japan. Keidanren, maintaining close contact with both public and private sectors at home and abroad, endeavors not only to find practical solutions to economic problems but also to contribute to the sound development of the economies of Japan and other countries around the world. Its membership counts 119 association members and 913 corporations as of October 1988. The association members include trade associations and regional economic organizations. The corporate members are leading Japanese enterprises and foreign companies operating in Japan.

Investment From Japan Essential to Diversification of State Economies

—A Report on Keidanren Investment Mission to the U.S. (Alaska, Hawaii)—

By Hideo Ishihara

Leader of Keidanren Investment Mission to the U.S.
Managing Director, Industrial Bank of Japan

1. Background and Purpose

Japanese direct investment in the United States has increased sharply in the past few years against a background of the rapid and steep appreciation of the yen. In fiscal 1987, such investment reached \$14.7 billion, accounting for 44 percent of Japan's total overseas direct investment, according to the statistics compiled on the basis of reports submitted by investing entities, although the rate of growth fell to 45 percent from 88 percent in fiscal 1986.

Keidanren has been making efforts over the years to promote overseas direct investment, in the belief that such investment will help to correct trade imbalances in the long run and mitigate trade frictions with the U.S. and other countries. As part of these efforts, this organization sent investment missions to 23 states of America in 1984, to 16 states in 1986 and to five in 1987. In addition, we have made consistent efforts to seek abolition of the worldwide unitary tax, a major impediment to direct investment in the U.S. Substantial progress was made toward the resolution of this problem in 1986 when the state legislature of California passed an amendment bill.

The rapid rise in investment in the U.S., however, is causing concern about possible frictions related to investment, such as lack of harmony between investing corporations and

local communities. In these circumstances, the Council for Better Investment in the U.S. was created in April this year by succeeding to the Worldwide Unitary Tax Council. The new council aims to deal with the remaining problems related to the unitary tax and to identify problems related to U.S. investment and study ways to cope with such problems.

The latest mission visited Alaska and Hawaii from September 4 to September 13 to obtain firsthand information on the investment climate in the two states and on problems related to investment in these states. Another purpose of the mission was to find out how these states perceived the growing concerns of Japanese investment in the U.S. generally — a sentiment that had intensified since the year before.

2. Impressions of the States Visited

(1) General Impressions

The states of Alaska and Hawaii are very different, when compared in terms of the level of Japanese direct investment. In Alaska, only a small number of investments have been made in the field of natural resources. In Hawaii, by contrast, a considerable number of investments have been made, particularly in the area of tourism.

We were impressed during the visits, however, by the fact that the two states have a number of ex-



tremely important things in common. First, both states are geographically separated from the other 48 states. Second, both are the newest states of America, Alaska being the 49th state and Hawaii the 50th. People in Alaska call the 48 states the "lower (southern) 48 states." In Hawaii, these states are collectively called the "mainland." These characteristics of Alaska and Hawaii have had significant effects on economic activities in these states. In particular, they have a strong desire to expand economic exchanges not only with the other 48 states but also with countries in the Pacific economic region, especially Japan. The warm welcome we received in the two states was an expression of this desire. We believe that now is the time for Japan to strengthen its economic relations with both states.

Industrial development needs to be promoted both in Alaska and Hawaii by taking advantage of their geographical characteristics. Alaska is situated at an almost equal

distance from Tokyo, New York and major cities in Europe, while Hawaii is located in the center of the Pacific. To cite a specific example, Federal Express has decided to use Anchorage as the hub of its international parcel delivery services. In addition, a plan to open a securities market in Hawaii is being studied since such trading can be conducted on the basis of time differences between Tokyo and New York. Hawaii also has the potential to develop an education industry since it can serve as the cultural bridge between East and West.

Both states are aiming to "diversify" their economies — an important fact which should be taken into account when Japan's economic relations with them are considered. Alaska, whose economic structure is traditionally oriented toward oil and other natural resources, has been hit hard by the fall in crude oil prices. Consequently, a major challenge for that state is to correct the excessive dependence on oil and other natural resources. Alaska's efforts toward economic diversification are evident in, for example, the fact that the governor of the state is taking the initiative to review the worldwide unitary tax and thereby facilitate foreign direct investment in the state.

In Hawaii, although the importance of promoting the tourism industry is recognized, efforts are being made to strengthen the economic structure through diversification of the economy, specifically through development of high-technologies such as oceanic technologies, in light of the state's geographical and other advantages. Although investment in real estate has elicited some criticism, we obtained the impression that the state government believes that investment from Japan has a large role to play in the development of the Hawaiian economy, and that continued expansion of such investment is to be

welcomed.

(2) Impressions in Each State

Some of the impressions we gained during our visits to the two states will be described in more detail on a state-by-state basis:

1) Alaska

The purpose of our visit to Alaska was to conduct a survey on the investment climate there, including the worldwide unitary tax problem.

Regarding the worldwide unitary tax, we were encouraged by the fact that the state government, from the governor on down, is very positive about reviewing it. In fact, the government is already drafting an amendment bill. At a luncheon he hosted, Governor Cowper stated that Alaska has made efforts to expand trade and investment relations with Japan ever since it became the first state of America to open a representative office in Japan in 1964. As for the worldwide unitary tax, he expressed an intention to review it by taking into account the views of Japanese business leaders including Mr. Akio Morita, Vice Chairman of Keidanren and Chairman of the Council for Better Investment in the U.S.

However, the situation surrounding this tax problem does not warrant optimism since some members of the state legislature are said to be reluctant to change the current system. In the background of such negative attitudes is the fact that the current unitary tax system makes it possible for oil companies making large profits in the state to reduce their tax burden. The state government wants to lure more investment from abroad by introducing the water's edge method. At the same time, however, it is concerned about the possible impact of a tax change on the oil industry, which is playing a key role in the state economy. Under the present circumstances, the government is studying a revision on the condition that the tax would apply to the oil industry as an

exception to the rule. Since the amendment bill now in the works is likely to come up for debate in the state legislature opening in January next year, we need to keep a close watch over future developments concerning the bill.

During the discussions on the unitary tax, the following question was often asked: Will Japanese investment in Alaska increase if the tax is changed? Our answer to the question was that not only the tax system but also various other factors are taken into account in the making of investment decisions. We believe that the Alaskan side understood our position, at least to some extent. However, since a change in the unitary tax would cause a drop in tax revenue, it is necessary for us to work out a more convincing answer to this question, which is expected to be asked time and again in future discussions on this problem.

In the past, economic relations between Japan and Alaska have centered on trade in mineral and fishery resources, forestry products, paper and pulp. The only notable case of Japanese direct investment is Alaska Pulp. Currently, there are several Japanese investment projects in the fields of coal exploration and resort development, and there are great expectations for these projects.

However, close attention must be paid to the question of environmental regulation in the implementation of these projects since local residents have a keen interest in the protection of the natural environment, one of the great physical assets of the state. On this point, Ms. Brady, the commissioner for natural resources, stated that no development project can be initiated without the consent of local residents. In order to obtain such consent, the state government hold public hearings. Only after the understanding of residents is obtain-

ed, can the legislature proceed to take action. This process of building a consensus naturally takes time.

During the visit to Alaska the mission conducted a tour of the Alaska Pulp plant in Sitka, a small coastal city. The plant, a pioneering example of Japanese direct investment in the U.S., has been in operation since 1959. The company has as many as 360 local people on its payroll and thus maintains close relations with the local community. However, it experienced a labor dispute and learned valuable lessons in the process. We also had much to learn from its experience regarding labor problems, relations with the local community and other relevant matters. The knowledge we obtained during the tour will help greatly, we believe, to promote activities of the Council For Better Investment in the U.S.

2) Hawaii

Hawaii has deep historical relations with Japan, as shown by the factor that about one-fourth of the state's population (about 1 million) are of Japanese descent. Also, one in five tourists from outside Hawaii is Japanese, and Japanese visitors account for one-third of the total revenue from tourism.

Thus Japan maintains a conspicuous presence in Hawaii, as compared with other states of America. Regarding Japanese investment in the state, the reaction was generally favorable except in a few cases, and most people we met expressed hope that investment would be expanded. Governor Waihee, stated during a meeting with us that Hawaii always welcomes foreign investment and that investment from Japan is making a material contribution to economic development in the state. Concerning real estate investment aimed at speculation, the governor stated that it is a matter of concern, as in Japan, and expressed hope that investment would increase in ways

that would promote the development of the state economy.

Japanese enterprises, including their affiliates, already occupy an important position in the Hawaiian economy, and they have paid close attention to relations with the local community since they expanded into the state. We were informed that the Japan Club was making greater contributions to the local community, including a \$500,000 donation made last year to the Aloha United Way, the Hawaiian branch of the United Way, a nonprofit organization whose business it is to collect donations from across the U.S. The visit to Hawaii was of great significance to the activities of the Council For Better Investment in the U.S. since maintaining harmonious relations with local communities is one of the key objectives of the council.

The state of Hawaii welcomes foreign direct investment in a range of fields from the point of view of promoting the diversification of the local economy. For example, Hawaii is promoting projects to build communications facilities taking advantage of its geographical position as the state situated in the center of the Pacific, to construct a base for space facilities on Hawaii Island and to develop oceanic technologies on Oahu and Maui islands.

In addition, a waterfront redevelopment project is under way in Honolulu Bay and adjacent areas. Members of the mission had the opportunity to observe some of the redevelopment work in progress on a boat tour of the bay. The project is designed to develop a bay area of 1,550 acres stretching along a 6-mile coastline by 1989 with the state government taking the initiative.

It needs to be noted, however, that development projects in Hawaii are subject to various restrictions as in Alaska. To take the waterfront development project as an example, efforts are being made to obtain the

understanding of the local community. We learned that because of stringent restrictions, new development projects are avoided and acquisitions of existing areas and facilities are preferred in many cases.

The education industry is another area that seems to hold out much promise. In this connection, the mission visited the Japan America Institute of Management Science (JAIMS), which is managed with the support of Fujitsu Ltd. The institute is conducting a Japanese language program for Americans and scholarship students from Southeast Asia, in addition to a reorientation program for employees taking up overseas assignments. Considering that Hawaii is a cross-cultural center where people from the East and West mingle, it is expected that such global educational activities will produce highly satisfactory results.

3. Future Prospects

The growth of Japanese direct investment in the U.S. has elicited criticism from some Americans since late last year. At the level of individual states, however, such investment is generally welcomed. In Alaska, as described above, foreign investment, particularly from Japan, is being encouraged as an essential means of achieving economic diversification. In Hawaii, too, Japanese investment is appreciated generally from the same standpoint, although there have been some undesirable cases of speculative real estate investment. In the case of Alaska, however, information on the state as host to foreign investors is not yet sufficiently available since it is relatively recently that the state showed a positive attitude toward foreign investment. The move to revise the unitary tax is a manifestation of the positive attitude which the state government takes toward Japanese

corporations. We believe that Alaska will be cited more often as a candidate for Japanese investment if a tax change leads to a better understanding of the investment climate on the part of Japanese corporations.

One thing notable about Alaska is that the state is rich in undeveloped tourism resources as well as in natural resources. With the Japanese people becoming increasingly aware of the need to improve the quality of life, the natural environment in Alaska is a great attraction. A plan to hold various international conferences in the state is worth considering, since it is located at an almost equal distance from Japan, the continental U.S. and Europe. Through such moves the Japanese will have a deeper understanding of and a greater sense of affinity toward Alaska and, as a result, possibilities for investment in a variety of fields will likely increase.

As for Hawaii, possibilities for investment in areas other than tourism have tended to be overlooked because the image of the state as a tourist resort is too strong. One interesting possibility is the establishment of a securities market in Hawaii, which is situated between Tokyo and New York. Given such prospects, it is important, we believe, for the state to select certain priority areas and publicize their strong points to would-be foreign investors.

There is also a growing need to maintain harmonious relations with local communities, at a time when Japanese direct investment in the U.S. is expanding rapidly. Hawaii has an important role to play in this. If Japanese businesses learn from their experience in this friendly state and apply the lessons they have learned to their activities in other parts of the U.S., then such efforts will produce useful and beneficial results. In this sense, the JAITS we

visited is a good example of global educational institutions where people from various parts of the world can learn about the economies and cultures of the U.S. and Japan.

4. Acknowledgements

In sending the mission to Alaska and Hawaii we received generous cooperation and support from the governors of the two states, other officials of the state and municipal governments, private economic organizations, the Japanese Consulate General, Japanese corporations in the two states and their representative offices in Japan. We also obtained the cooperation of representatives from member companies who participated actively and enthusiastically in the mission throughout the tightly scheduled trip. I would like to express my deep gratitude for the cooperation and support extended to us and look forward to continued guidance and support.

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Tokyo Area — 502-1461 for Tokyo TIC

Kyoto Area — 371-5649 for Kyoto TIC

Remarks:

- When you use a public phone, the charge is ¥10 per three minutes.

TOURIST INFORMATION CENTERS (TIC)

The Tourist Information Centers shown below offer various services ranging from travel information on Japan, free literature, and arrangements for home visiting to suggestions on tour itineraries. They are open from 9 a.m. to 5 p.m. on weekdays and from 9 a.m. to 12 noon on Saturdays. Closed on Sundays and national holidays.

Tokyo Office:
Kotani Bldg. 6-6,
Yurakucho 1-chome,
Chiyoda-ku, Tokyo
Tel. (03) 502-1461

Kyoto Office:
1st fl., Kyoto Tower Bldg.,
Higashi-Shiokojicho,
Shimogyo-ku, Kyoto
Tel. (075) 371-5649

Japan National Tourist Organization

TAB 10

**Keidanren Investment Mission to U.S.A.
Purpose and Back Ground**

Japan's direct investment in the United States has been rapidly expanding since the early 1980s, far outpacing the high growth of its global overseas investment. The United States has always been ranked as the number one host of Japan's direct investment. According to the figures released annually by the Ministry of Finance, 1,816 cases of direct investment, amounting to \$14.7 billion (44.1% of Japan's global investment of the year), in the United States were made by Japanese companies in fiscal year 1987. This registered a vigorous 44.7% increase over 4.5 billion of the previous fiscal year. The cumulative (FY1951-87) total of Japan's direct investment in the U.S. now amounts to 50.2 billion dollars.

Keidanren believes Japanese direct investments into the U.S. will contribute to the economic development of both the U.S. and Japan, and has helped its member companies explore investment opportunities.

In this context, Keidanren sent three investment study missions covering 23 states in order to obtain firsthand information on economic and social environment of the respective state in June 1984. For the same purpose Keidanren sent similar missions to 16 states in 1986, and to 5 states in 1987. These missions exchanged views with the Governors, members of the state legislature, Mayors, leaders of the state and municipal governments, business community, as well as Japanese companies who already operate locally and visited major industrial sites as well.

With the fast increasing direct investment, Japanese companies are bound to face various new problems caused by their direct investment in the U.S., including such issues as fostering better community relations and avoiding movements towards greater investment restriction. In order to cope with these problems, a new council named "Council for Better Investment in the U.S." (CBIUS) was established on April 6, 1988.

Following these activities, another investment expansion mission was organized to visit the State of Alaska and the State of Hawaii from September 4 to 13.

The Mission will report its findings to the member companies of Keidanren and CBIUS and other Japanese corporations for reference in their future investment plans.

Though this mission will not engage in immediate business talks on investment, we are convinced that the visits by the mission, composed of representative corporations of major industrial sectors in Japan, will lead to a smooth expansion of Japan's direct investment, taking into account various social and economic concerns in the United States.

**Keidanren
Investment Mission
to
The United States
of
America
Alaska, Hawaii**

September 1988

Leader:**Hideo ISHIHARA**

Managing Director
The Industrial Bank of Japan, Ltd.

石原 秀夫

日本興業銀行常務取締役



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International Travel Div.
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永谷 幸人

日本通運東京般空支店国際旅行部



Interpreter:

Yaejoong KIM

金 礼 中(通訳)

サイマル・インターナショナル通訳

Keidanren (Japan Federation of Economic Organizations) is a private, non-profit economic organization representing virtually all branches of economic activities in Japan. Keidanren, maintaining close contact with both public and private sectors at home and abroad, endeavors not only to find practical solutions to economic problems but also to contribute to the sound development of the economies of Japan and countries around the world.

Through the merger of several economic and industrial organizations active since prewar days, Keidanren was established in August 1946.

Since then Keidanren has grown into a nationwide body with 120 association and 915 corporate members as of August 1988.

Headed by internationally acknowledged leaders of the Japanese business community, Keidanren plays an active and influential role in the achievement of harmonious economic prosperity for all mankind.

KEIDANREN

Japan Federation of Economic Organizations

9-4, Ohtemachi 1-chome,
Chiyoda-ku, Tokyo 100, Japan
Tel. (03) 279-1411
Telex: 222-3188 KDR TOKJ
Facs. (03) 246-0574

TAB 11

ATTACHMENT A

Draft List of Possible Options

1. **Separate accounting for all corporate taxpayers.** This is nominally what the Japanese are asking for, and would remove the psychological barrier said to deter foreign investment. It could lose us up to \$2 million annually (depending on how implemented) in non-petroleum corporate tax revenue, but at current oil prices would increase petroleum tax revenue by at least \$150 million. Under separate accounting, production and pipeline profits earned in Alaska would be taxed at the full 9.4 percent nominal rate. See the table below for the effective rates under current law.

Net Income, Tax Paid, and Average Effective Rates Petroleum Corporate Income Tax

-----millions-----

	Alaska Net Income	Tax Paid	Tax Rate
1983	\$5,771	\$236	4.1%
1984	\$6,639	\$265	4.0%
1985	\$5,083	\$169	3.3%
1986	\$3,452	\$134	3.9%

Net income calculated from data in Sohio annual reports and FERC filings.

2. **Water's edge for all corporate taxpayers.** Would also remove the psychological barrier said to deter foreign investment. Likely to have little impact on current non-petroleum corporate tax revenue (i.e. $\pm$ <\$1 million annually). The effect on petroleum revenue could be much larger, though difficult to predict. EXXON and Standard would probably pay more tax, and that ARCO would pay less, resulting in a net increase of \$10-40 million in annual corporate petroleum income tax revenue.

3. **Status quo for oil companies, separate accounting for everyone else.**

4. **Status quo for oil companies, water's edge for everyone else.**

5. **Status quo for oil companies, separate accounting or water's edge for everyone else, with a compensating rate change to make result "revenue neutral."** But has anyone figured out what we mean by "revenue neutral?"

6. **Separate accounting or water's edge for everyone, with a compensating rate change to make result "revenue neutral."** Theoretically, this could get the state the same

amount of money as it is currently getting, while cutting the nominal tax rate roughly in half. The oil companies would pay a tiny bit more than at present. Everyone else (at least everyone currently paying 9.4 percent) would have their corporate tax reduced by half. This would unequivocally have a positive economic diversification effect, a statement that can't be made about any of the options describe above. The problem, of course, is that the rate adjustment required for revenue neutrality this year (assuming we could figure that out in advance) would almost certainly not be revenue neutral in the following year.

7. Abolish the non-petroleum tax, go to separate accounting for oil companies and adjust the rate to achieve "revenue neutrality." We could probably reduce our nominal 9.4 percent rate (now paid only by ^{new}oil companies) to 5.5 percent and expect the result to approximate the revenue from our current corporate tax structure. Like option 6, this would produce an unequivocal economic diversification impact.

8. Abolish the non-petroleum tax, go to separate accounting for oil companies. Like option 1, above, this would raise oil company taxes and state revenue. Unlike option 1, this would be certain to have a positive impact on economic diversification.

9. Give corporations an option, a la California. Any time we give the oil companies (or any other profit maximizers) an option, they will use it to lower their costs. Where the amounts at stake are large, as they are with in the case of Alaska oil, there is the risk of losing big bucks.

10. Give non-petroleum corporations an option, a la California, but retain (and require) worldwide unitary for oil companies. But some authorities have suggested that once you establish an option, it must be made available to all.

11. Do nothing. "Sorry, governor. It seemed like a good idea at the time, but further study suggests that it doesn't make sense. The reason it doesn't make sense is...."

12. Study the question until it goes away. A variation on the "do nothing" option, above. An easy option to justify because no matter how much analysis we devote to any proposed change, we will still face considerable uncertainty on the revenue effects of the change. And while it may not always be true, it can always be asserted that additional analysis will reduce the residual uncertainty.

**TABLE D-6
CORPORATE INCOME TAX
AS PERCENT OF STATE TAX COLLECTIONS
1985**

RANK	STATE	PERCENT
1	NEW HAMPSHIRE	22.0
2	MICHIGAN	16.0
3	CONNECTICUT	14.0
4	MASSACHUSETTS	12.9
5	CALIFORNIA	12.6
6	NORTH DAKOTA	12.2
7	NEW JERSEY	12.0
8	ALASKA	10.8
9	MONTANA	9.8
10	DELAWARE	9.4
11	NORTH CAROLINA	9.4
12	PENNSYLVANIA	9.3
13	GEORGIA	9.2
14	NEW YORK	9.0
15	TENNESSEE	8.6
16	KANSAS	8.3
17	RHODE ISLAND	8.2
18	WISCONSIN	8.2
19	OREGON	7.8
20	ILLINOIS	7.7
21	VERMONT	7.6
22	LOUISIANA	7.6
23	ARKANSAS	7.5
24	MINNESOTA	7.3
25	SOUTH CAROLINA	7.3
26	ALABAMA	7.3
27	KENTUCKY	7.0
28	ARIZONA	6.9
29	IOWA	6.7
30	VIRGINIA	6.4
31	MISSISSIPPI	5.9
32	IDaho	5.8
33	MARYLAND	5.7
34	FLORIDA	5.5
35	MAINE	5.3
36	WEST VIRGINIA	5.3
37	OHIO	5.1
38	MISSOURI	4.8
39	SOUTH DAKOTA	4.8
40	NEBRASKA	4.7
41	NEW MEXICO	4.5
42	COLORADO	4.4
43	INDIANA	4.1
44	UTAH	3.9
45	HAWAII	3.6
46	OKLAHOMA	3.5
47	NEVADA	0.0
48	TEXAS	0.0
49	WASHINGTON	0.0
50	WYOMING	0.0
	50 STATE AVG.	8.2

ATTACHMENT B

The corporate tax is plays a bigger role in Alaska than in most states, though a smaller role than it did before the 1981 tax amendments (see Attachment D). Alaska would rank a little lower if the comparison were made against "all general revenues," which would then include our royalty income in the denominator. This is U.S. Census data.

TABLE D-32
CORPORATE PROFITS TAX
ON ADDED DOLLAR OF PROFIT
(\$1,000,000 TO \$1,000,001)
1986

RANK	STATE	PERCENT
1	MINNESOTA	12.00
2	CONNECTICUT	11.50
3	NEW YORK	10.00
4	OHIO	9.70
5	CALIFORNIA	9.60
6	MASSACHUSETTS	9.50
7	PENNSYLVANIA	9.50
8	ALASKA	9.40
9	NEW JERSEY	9.00
10	VERMONT	9.00
11	MAINE	8.93
12	DELAWARE	8.70
13	NEW HAMPSHIRE	8.25
14	RHODE ISLAND	8.00
15	WISCONSIN	7.90
16	IDAHO	7.70
17	OREGON	7.50
18	KENTUCKY	7.25
19	MARYLAND	7.00
20	WEST VIRGINIA	7.00
21	KANSAS	6.75
22	MONTANA	6.75
23	NEBRASKA	6.65
24	ILLINOIS	6.50
25	IOWA	6.48
26	HAWAII	6.44
27	ARKANSAS	6.00
28	GEORGIA	6.00
29	NEW MEXICO	6.00
30	NORTH CAROLINA	6.00
31	SOUTH CAROLINA	6.00
32	TENNESSEE	6.00
33	VIRGINIA	6.00
34	ARIZONA	5.67
35	NORTH DAKOTA	5.67
36	FLORIDA	5.50
37	COLORADO	5.00
38	MISSISSIPPI	5.00
39	OKLAHOMA	5.00
40	UTAH	5.00
41	LOUISIANA	4.32
42	INDIANA	3.00
43	ALABAMA	2.70
44	MISSOURI	2.70
45	MICHIGAN	0.00
46	NEVADA	0.00
47	SOUTH DAKOTA	0.00
48	TEXAS	0.00
49	WASHINGTON	0.00
50	WYOMING	0.00

ATTACHMENT C

As this ranking shows, Alaska has a fairly high corporate tax rate. Large mining companies and others which historically pay virtually no income tax may not care. For small to medium corporations (annual sales less than \$50 million) studies suggest that the rate may be a significant factor in both location decisions and business success. The desire to reduce the nominal rate has been an element in tax "reform," both federally and in states like Minnesota and New York. For many, a quick and quantitative measure of income tax "reform" is the increase in collections per percentage point of rate:
(Δ collections/1% tax/million \$ tax base).

ATTACHMENT D

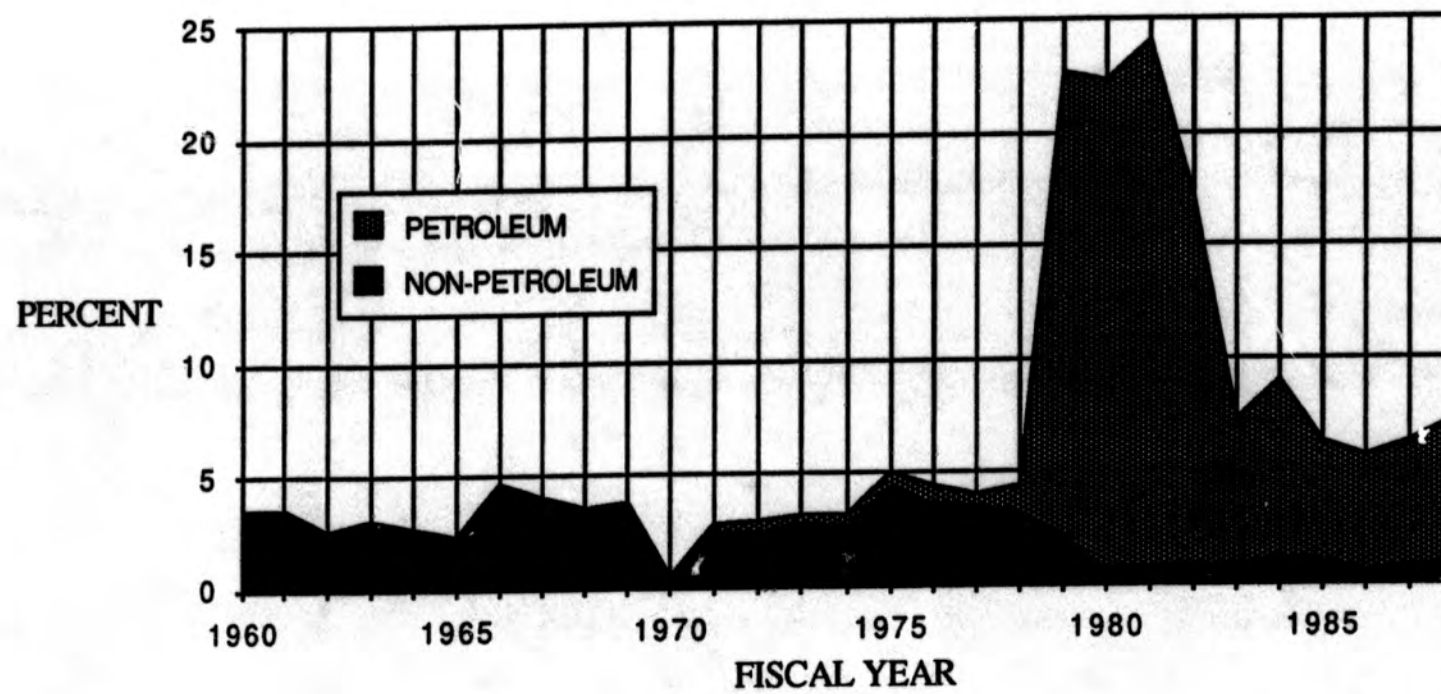
CORPORATE TAX AND TOTAL UNRESTRICTED REVENUE, FY 1959-88
(\$ Millions)

<u>FY</u>	UNRESTRICTED GENERAL FUND <u>REVENUE</u>	CORPORATE INCOME TAX REVENUE	
		<u>Petroleum</u>	<u>Non-petroleum</u>
59	25.4		1.4
60	48.0		1.7
61	40.5		1.4
62	68.9		1.8
63	71.6		2.2
64	67.0		1.8
65	83.0		1.9
66	86.5		4.1
67	86.6		3.5
68	112.7	0.1	3.8
69	112.4	0.1	4.2
70	1067.3	0.4	4.9
71	220.4	0.9	5.2
72	219.2	1.2	5.3
73	208.2	0.9	5.9
74	254.9	1.2	7.0
75	333.4	2.5	14.8
76	709.8	4.9	26.2
77	874.3	5.0	30.8
78	764.9	8.4	25.1
79	1133.0	232.6	24.8
80	2501.2	547.5	17.9
81	3718.2	860.1	34.8
82	4108.4	668.9	34.8
83	3631.0	236.0	30.1
84	3390.1	265.1	39.5
85	3260.0	168.6	36.0
86	2679.4	135.0	15.0
87	1741.3	95.0	14.0
88*	1716.1	110	15

*Forecast.

ATTACHMENT E

**CORPORATE INCOME TAX REVENUES
AS A SHARE OF TOTAL U.G.F. REVENUE**



TAB 14

TAB 9

MEMORANDUM

State of Alaska

TO: Steven E. Kettel
Director, Income and Excise Audit

DATE: August 4, 1988

FILE NO.:

THRU:

TELEPHONE NO.: (206) 448-7588

SUBJECT: MTC ANNUAL MEETING

FROM: David McClune *AM*
Revenue Audit Supervisor

I attended the MTC Annual Meeting in San Antonio, July 13-15, 1988.

Water's edge combination was discussed in a couple of different contexts at the meeting. The discussion left me with the impression that no one is very happy with water's edge combination as it currently exists. The

AUG 26 1988

STRATEGIC PLANNING

Steven E. Kettel
August 4, 1988
Page 2

states are unhappy because they have lost revenue and they have not noticed any significant new instate plant investments. The water's edge states were heavily lobbied by business interests which claimed that worldwide combined reporting was an impediment to instate investments by multinational businesses. Implicit in this lobbying effort was a promise for instate investments for those states that adopted the water's edge approach. A number of water's edge states are still waiting for the new plant investments and jobs to come to their states. Businesses complain about water's edge reporting for a number of reasons. Business complains that a portion of its foreign source income (dividends, royalties and interest) is still being included in its domestic income base and that no factor relief is being granted. Business does not like the fee structure that California has imposed upon corporations which elect water's edge combination. Lastly, business complains about the costs of complying with the water's edge reporting laws. Most water's edge states require that domestic disclosure spreadsheets be filed by all water's edge groups. These spreadsheets require a tremendous amount of time to prepare and they are not uniform from state to state.

That's about all I have to report that is significant to Alaska. For your general information I have enclosed a handout on current judicial developments that was distributed at the meeting. Please let me know if you have any questions about the meeting.

DM/pr

Enclosures

TAB 10

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

MEMORANDUM

TO: Ben Harding
Acting Director
Office of International Trade

DATE: February 17, 1988

Garrey Peska
Chief of Staff

PHONE: 465-3500

FROM: Steve Cowper
Governor

SUBJECT: Meeting Follow Up

On the evening of Sunday, February 14, 1988, at San Diego, I met with Akio Morita, Chairman of Sony Corporation. Mr. Morita was in San Diego at a Keidanren meeting with their U.S. counterparts. Originally I had been scheduled to meet with Mr. Hideo Mochida, Executive Secretary of the Japan-Western U.S. Association; once I arrived Mr. Mochida deferred to Mr. Morita. Rod Swope was also present at the meeting.

It was clear that Chairman Morita had an interest in Alaska. He said that he had wanted to put a Sony branch operation in Alaska some years ago because of the central location, but that the board had not concurred. He also arranged a high-level meeting of Japanese and European business leaders in Anchorage about 7-8 years ago, but at the time communications facilities and hotel services were so primitive that the meeting was not successful.

Rod's notes of the meeting are attached. My sense of things is that Mr. Morita wants to work with us to arrange an international finance conference in Alaska, as well as other activity which is based on our geographical location. He also thinks we should send a high-ranking representative to the Japan-Western U.S. Association meeting in Los Angeles in September (details to be sent to us). However, it was clear that his assistance was predicated on repeal of the unitary tax, which allows state auditors to go through a company's books worldwide.

→ FILE: UNITARY TAX
GENERAL

Mr. Ben Harding
Mr. Garrey Peska

-2-

February 17, 1988

Alaska is the only state in the Union with the unitary tax still on the books. In my 1987 State of the State message I proposed that we repeal the tax. To my knowledge one conference on the unitary tax was held and then the matter was dropped. If we don't attend to this we will lose a lot of international investment opportunities.

Mr. Sadami (Chris) Wada, who is the Sony Vice-President for Governmental Affairs, will be contacting my office on the above matter. I'd like to ask Ben Harding to make sure his correspondence is followed up in a systematic way and that action follows. This is very important.

Attachment

bcc - John Lissberg

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

MEMORANDUM

TO: The Honorable Steve Cowper DATE: February 16, 1988
Governor
FROM: Rod Swope SUBJECT: Morita meeting
Special Staff Assistant follow-up
to the Governor

Although my notes on the meeting with Mr. Morita are rather cryptic, here's a summary of the salient points that I can recall:

- Mr. Morita recommended that we repeal the unitary tax and return to a separate accounting system. He offered the advice and assistance of Mr. Wada, who apparently has extensive knowledge on this issue. Mr. Wada was going to call Lynn Bartlett to establish initial contact.
- As an outgrowth of discussions with the Governor of Hawaii, Mr. Morita urged us to look into the convenience of flights from Alaska to Europe. He felt that Alaska based airlines were losing carrier opportunities (and money spent in duty free shops) because of poor (or nonexistent) flight schedules to Europe as well as convenient connecting flights to Hawaii.
- Mr. Morita indicated that Alaska is located in the "center of the world" for the average international businessman. We should be promoting that theme and upgrading our accommodations and ability to hold major conferences. In addition to good conference facilities, recreational opportunities (e.g., skiing, tennis, golf) are also important to attract potential conferees.
- Mr. Morita expressed interest in possibly holding an international "business roundtable" in Anchorage in 1989 or 1990. The meeting could include well known business leaders from Europe, Japan, and the U.S.
- Rather than referring to the "midnight marathon", Mr. Morita suggested that Alaska start using the term "white night marathon" which is more appealing and does not give the impression of darkness. He felt that most foreigners do not realize that it stays light late in Alaska in the summer.

- A large meeting has been scheduled for September 15-17 (location unknown) which will be attended by major business interests of Japan. Mr. Morita encouraged Alaska to send a representative. Mr. Sakaguchi said he would send us an agenda program materials.

Needed Follow-up

- Someone needs to dig into the unitary tax question.
- The Anchorage Chamber of Commerce needs to contact Japan's equivalent and begin to promote their conference facilities, hotels, recreation opportunities, etc.
- We should initiate the effort and make contact with the Japanese business community to begin planning for a "business roundtable" meeting in Anchorage next year or the following year.
- Someone needs to be appointed to attend the conference September 15-17.

Meeting Attendees

Akio Morita, Chairman
Sony Corporation

Hideo Mochida, Executive Secretary
Japan-Western U.S. Association

Sadami (Chris) Wada, Vice President
Government Affairs
Sony Corporation of America

Kei Sakagushi, Asst. to Division Manager
External Corporate Affairs Division
Sony Corporation

Susumu Yoshida, Deputy Executive Secretary
Japan-U.S. Business Council

TAB 13

17 June 1988
(LEGISLATION WAS NOT APPROVED
FOR DRAFTING)

***Overview and Sectional Analysis of
Draft Legislation Prepared by
The Staff Working Group on Corporate Taxation***

Overview

This bill repeals provisions of the Alaska corporate income tax requiring firms with foreign affiliates to report income on a combined basis (worldwide combination) and apportion the combined income on the basis of the 3-factor formula. Instead, taxable income will be determined for most corporations on the basis of the revenues earned from Alaska activities minus costs incurred to produce those revenues (separate accounting).¹

Under the proposed legislation the corporate tax rate will be reduced from 9.4 percent to 4.2 percent.² Notwithstanding this reduction, the bill is designed to be revenue neutral: if oil prices and other variables stay as they are – a critical assumption – this bill will collect the same amount as the current law. If oil prices change, however, the bill may *not* remain revenue neutral. If oil prices rise

¹ For ease of taxpayer compliance and revenue administration, most firms other than oil companies will be allowed to use either separate accounting or separate entity methods of reporting. Transportation companies will remain under the current apportionment rules.

² This is the provisional top bracket rate estimated by the Division of Policy to produce a revenue neutral result. Revenue neutrality is not a clearly defined concept, but as used here it means that FY 90 revenue under the draft bill will be the same as currently forecast, other things being equal. The rates in the bill will be revised when the Dept. of Revenue (DOR) completes its pending analysis.

the state is likely to collect more than under current law, if they fall, less.

Most smaller Alaska corporations have no revenues or costs outside Alaska; shifting them to separate accounting will, by itself, have no effect. For non-petroleum multi-state firms the average effect of the shift to separate accounting will be to lower taxable income, but for oil companies the result will be an increase.

Under the current apportionment system the oil industry reports annual Alaska net income of about \$1.3 billion; this will increase to \$3 billion or more under the separate accounting provisions of this bill.³ As the table below shows, the gain from this increase in taxable income is largely offset by the reduced tax rate.

Projected FY 90 Corporate Tax Revenue⁴
(millions)

	From Multi-state Petroleum Companies	From Multi-state Non-petroleum Companies	From Domestic Alaska Companies	Total
Current law (9.4 % rate)	\$120	\$11	\$3	\$134
Draft bill (4.2 % rate)	\$130	\$3	\$1	\$134

In effect, a 70 percent reduction in non-petroleum corporate income tax burden is offset by an 8 percent

³ The Division of Policy, DOR, and the Dept. of Law have all argued, and the state Supreme Court has agreed, that separate accounting is a more accurate way of measuring petroleum industry income in Alaska.

⁴ These are Division of Policy estimates; they will be revised on completion of the DOR analysis.

increase in the petroleum tax.⁵ The Division of Policy believes that the petroleum tax increase will have an insignificant impact on future petroleum industry investment in the state. By contrast, the reduction in the corporate tax burden on non-petroleum firms is likely to improve the attractiveness of the state to new investment from such firms.⁶ Another important economic benefit will be the competitive boost that the tax cut will give to profitable and prospectively profitable domestic Alaska corporations.

Sectional Analysis⁷

**Section 1* revises the tax rates. In this draft, dollar amounts and percentage rates have been reduced by 55 percent. The new percentage rates have been rounded to the nearest tenth of a percentage point.

**Section 2* repeals and reenacts the section in the present law covering "Allocation and Apportionment." Corporations engaged in oil and gas exploration, production or pipeline transportation must use the separate accounting method in the new AS 43.22 (see below). Transportation carriers must use the system in AS 43.20.071 (unchanged from current law).

Everyone else has a choice: traditional separate accounting or separate entity accounting. If the firm

⁵ The draft bill will increase total state petroleum revenue by 0.5 percent.

⁶ Abandoning the unitary concept may speed development as well, though the economic evidence on that point is not strong. Much depends on whether the foreign business interests follow through on their representations that the change will bring new overseas investment to Alaska.

⁷ The sectional analysis describes "Draft #5," dated 6/16/88.

chooses separate entity accounting, it must stick with that choice for 10 years. If a corporation doing business outside Alaska elects separate entity accounting, the share of its net income allocable to Alaska is determined by the AS 43.19, the Multi-state Tax Compact.

Section 3 enacts a new chapter, AS 43.22, which prescribes the special separate accounting rules covering firms engaged in oil or gas exploration, production, or transportation. The language is largely drawn from the 1985 House Finance Committee petroleum separate accounting bill, HB 353, which derived in turn from the 1978 petroleum separate accounting law (largely repealed in 1981).

**Section 4* repeals the unitary tax provisions in current law.

**Section 5* repeals the modified apportionment provisions adopted in 1981 for oil companies.

**Section 6* provides that the Act applies to tax years beginning after 31 December 1988.

**Section 7* is the immediate effective date clause.

Division of Policy

17 June 1988

HOUSE SPECIAL COMMITTEE ON FOREIGN TRADE

- 4 "89"
- (1) CALL MEETING TO ORDER...NOTE MONTH, DAY, YEAR, TIME
 - (2) NOTE MEMBERS PRESENT AND EXCUSED
 - (3) TODAY'S CALENDAR

WE ONLY HAVE ONE ITEM SCHEDULED TODAY, AND THAT'S HB 281, THE SO-CALLED UNITARY TAX BILL. WE'RE TELECONFERENCING THIS MEETING TO ~~NEW YORK, SEATTLE~~ ^{CONNECT.} ANCHORAGE AND SEWARD -- VIRTUALLY ALL THE COSMOPOLITAN CITIES OF NORTH AMERICA ARE TUNED IN HERE TODAY.

WE HAVE ONLY AN HOUR, SO I'M GOING TO ASK THAT EVERYONE KEEP THE TESTIMONY TO FIVE MINUTES.

LET'S START WITH THE GOVERNOR'S OFFICE, SPEAKING FOR THE BILL, AND THEN WE'LL HEAR FROM SUSAN BURKE, REPRESENTING IBM, WHICH *IN PART* OPPOSES THE GOVERNOR'S APPROACH ON THIS ISSUE. AFTER THAT, WE'LL MOVE ON TO THE TELECONFERENCE SPEAKERS.

(ASK WHETHER POE ~~WANTS TO SPEAK~~ WISHES TO SPEAK FIRST)

BURK

- SUSAN BURKE

• DAN DIXON, REPRESENTING THE SONY CORPORATION, IS ~~ON LINE~~ ^{HERE,} ~~IN SEATTLE~~, BUT DOESN'T PLAN TO TESTIFY UNLESS THERE ARE QUESTIONS OF HIM. CHRIS WADA, SONY VICE PRESIDENT FOR GOVERNMENTAL AFFAIRS, IS ON LINE FROM ~~NEW YORK~~ ^{CONNECT} AND WE'LL HEAR FROM HIM NOW.

• BILL NOLL, WHO I BELIEVE REPRESENTS SUNEEL ALASKA, ON LINE FROM SEWARD.

• LOREN LOUNSBURY, FORMER ALASKA COMMISSIONER OF COMMERCE, ON LINE FROM ANCHORAGE

- (4) QUESTIONS FROM COMMITTEE MEMBERS

Alaska Unitary Statement

My name is Susan Burke and I am here today representing the IBM Company and their interest in corporate tax reform.

IBM has a long business history in Alaska. They currently employ 170 people in our State. Their annual payroll exceeds \$10 million. The company is an active corporate citizen contributing more than \$125,000 to charities and community projects in the last year.

IBM is most interested in the Governor's proposal to reform our State's worldwide unitary method of taxation. However, they are disappointed and concerned that the proposed legislation is limited to only foreign corporations. The proposed legislation benefits only corporations who are non U.S. companies and thus would discriminate against U.S. domestic corporations and put them at even more of a tax disadvantage than today. IBM agrees with the fundamental need to repeal Alaska's world wide unitary taxation; however, the legislation must be expanded to include domestic corporations or it will only exacerbate tax inequities for U.S. companies.

While one issue is competitive fairness between foreign and domestic companies, an equally important issue is good tax policy. Repeal of worldwide unitary taxation has been a priority of IBM and the business community for years.

Alaska is the only state currently requiring worldwide unitary taxation. In the past four years, 11 states have revised their tax laws to no longer require this form of state taxation. In addition, no country in the world uses this method of taxation. In fact, many countries have petitioned the U.S. government protesting the fact that states use worldwide combination.

Why does IBM oppose worldwide unitary taxation? IBM operates in more than 130 countries around the world. When an IBM overseas affiliate earns income, it pays taxes to the country in which the income was earned. In most cases, the foreign tax is at a higher rate than in the United States. A fundamental tenet of international tax law and practice is that foreign source income is not taxed by the home country until it is repatriated and then only to the extent that it is not offset by foreign tax credits. Clearly, the intent of this policy is to avoid double taxation of foreign source income.

A state, like Alaska, that uses worldwide unitary taxation, taxes foreign source income when it is earned even if it is never brought back to the U.S. Furthermore, using foreign income in calculating state tax liability may result in over apportionment of income to a state, taxation of income already taxed by a foreign government (and not taxed by the U.S. government), and potentially disruptive effects on international trade. Thus, use of the worldwide unitary method of taxation can distort a

company's taxation relationship to a state and mean double taxation of income earned in another governmental jurisdiction.

Corporate taxes are a basic and significant cost of doing business and no company can withstand a tax disadvantage without suffering an important economic impact. Therefore, IBM strongly recommends repeal of Alaska's worldwide unitary tax system for all corporations.

Reform of the worldwide unitary system will make Alaska a more attractive place to invest if it is applied equally to domestic U.S. corporations and foreign corporations. If worldwide unitary reform applies only to foreign corporations, they would no longer be taxed on their foreign income, while U.S. corporations will continue to be taxed of foreign income. This is not only a disincentive to investment in Alaska by U.S. corporations, but penalizes them compared to their foreign competitors.

IBM would be pleased to work with the Legislature in an effort to draft legislation that provides meaningful and comprehensive reform of the worldwide unitary tax system.

ANALYSIS OF I.B.M.'S UNITARY TAX PROPOSAL

The following is a technical explanation of IBM's proposed bill, which would apply the water's edge method to multi-national corporations with both domestic and foreign parents. Many of the provisions of I.B.M.'s proposal are identical to those of the Governor's bill (SB 119). This analysis focuses on the differences.

TAXABLE INCOME -- Sec. 43.20.031.

DEFINITION. Subsection (a) of Sec. 43.20.031 requires that taxable income shall be determined in accordance with Sec. 63 of the Internal Revenue Code (IRC). Alaska law currently does not contain any express definition of taxable income. Up until 1980, the law did define taxable income according to the IRC definition. The definition apparently was repealed unintentionally in 1980 as a consequence of the personal income tax repeal. A definition is required to eliminate an ambiguity in the law and to support the intent to limit taxation to the water's edge. SB 119 contains no definition of taxable income.

EXCLUSIONS. Subsection (b) of Sec. 43.20.031 excludes 80% of foreign dividends, 100% of IRC Sec. 78 dividend gross-up, and 80% of foreign royalties.

The federal government imposes income tax on a residence principle. Income of foreign subsidiaries owned by domestic corporations is not included in the tax base until it is repatriated in the form of dividends or royalties paid to a

domestic corporation. However, double taxation of repatriated foreign source income is eliminated through the foreign tax credit.

States, including Alaska, impose income tax on a source principle. That is, states are limited by the U.S. constitution to taxation of income arising within the state's borders. For corporations that do business within and without the state, the state's portion of the total income is derived through an apportionment formula. 1/ Theoretically, the use of a worldwide apportionment basis will limit the attribution of income to a state through the apportionment formula because worldwide factors are included in the denominator. On a water's edge basis, however, both income and factors are limited to the water's edge. Therefore, unless foreign source income of companies included in the water's edge is specifically excluded, the apportioned total income will include foreign source income, which the state is prohibited from taxing.

Sec. 78 gross-up is fully excluded, because this is "fictitious income." It is included in federal taxable income solely for U.S. tax purposes as part of the mechanics of the foreign tax credit. Neither this income nor the workings of the foreign tax credit are applicable for state tax purposes

1/ Typically, states use a three factor formula in which the property, payroll and sales within the state are divided by the total property, payroll and sales of the unitary corporate group. The resulting percentage is then applied to total corporate income to determine the income appropriately attributed to the state.

(although a few states have their own version of a "foreign tax credit").

Foreign dividends and foreign royalties likewise would be fully excludable for the aforesaid reasons. However, certain U.S. expenses, although deducted from (reducing) taxable income, for example research and development expenses, may be partly attributable to the excludable foreign income. In recognition of this, the bill provides for only an 80% exclusion. Subsection (c) of this section further clarifies that no further expense attribution should be made.

The second sentence of subdivision (b) clarifies that these exclusions -- foreign dividends, foreign royalties and Sec. 78 dividends -- apply only to payments received by members of an affiliated group included in a combined Alaska return, from related companies, defined as 50% owned.

AFFILIATED GROUP DEFINITION -- Sec. 43.20.073.

Our bill includes the same corporations in the affiliated group as the governor's bill. The only difference is the exclusion from the group of "80/20" corporations.

80/20 corporations are corporations incorporated in the U.S., but which conduct business primarily overseas. For numerous non-tax reasons, such as foreign prohibitions against incorporating, import restrictions, foreign exchange requirements, etc., many multi-nationals are forced to organize this way in order to facilitate operating in certain foreign countries. Clearly, the preference would be to establish foreign subsidiary

corporations in these countries, in which case they would be excluded from the water's edge. There is no reason to include these essentially foreign corporations in the water's edge, simply because of a method of operation imposed by foreign requirements. There is no tax motivation for this type of organization, and there should be no undue tax consequence resulting from the necessity to operate in this manner.

FOREIGN CORPORATION DEFINITION -- Sec. 43.20.051.

As a result of the extending the water's edge method to U.S. corporations, income received from foreign corporations requires special treatment. Therefore, it becomes necessary to define "foreign corporation." Sec. 43.20.051 defines such a corporation to be one "created or organized outside of the United States, the District of Columbia, the commonwealth of Puerto Rico, or any possession of the United States."

All other provisions of our bill are identical to the Governor's bill.

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
SIXTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to corporate income
taxes; and providing for an effective
date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. It is the purpose of this Act to promote
investment in the state.

* Sec. 2. AS 43.20.031 is repealed and re-enacted to read:

Sec. 43.20.031. TAXABLE INCOME OF CORPORATIONS;
DEDUCTIONS; EXCLUSIONS; EXEMPTIONS. (a) Taxable income
shall be determined in accordance with Section 63 of the
Internal Revenue Code, except as otherwise provided.

(b) In computing Alaska taxable income for a
corporation, the following amounts shall be excluded:

- (1) 80 percent of dividend income from foreign
corporations;
- (2) any amount treated as a Section 78 dividend
under Section 78 of the Internal Revenue Code; and
- (3) 80 percent of royalties accrued or received
from a foreign corporation.

1 For this purpose, the payment is deemed to be received
2 from a corporation that is part of the unitary business
3 the payments are received by a member of an affiliated
4 group included in a combined Alaska report from a
5 corporation in which the recipient owns 50 percent or mo
6 of the stock of such corporation.
7

8 (c) Dividends and royalties taxable under (b) of
9 this section are in lieu of any expense attribution for
10 income excluded under (b) of this section.

11 (d) In computing the tax under this chapter, the
12 taxpayer is not entitled to deduct any taxes based on or
13 measured by net income.

14 (e) An affiliated group of corporations may make or
15 the commissioner may require them to make a consolidated
16 return for the taxable year in place of separate returns.
17 For purposes of calculating the amount of tax payable by
18 the group under a consolidated filing, 26 U.S.C. 1501 -
19 1552 (Internal Revenue Code), as amended, apply.

20 (f) A corporation that is a member of a group of
21 unitary corporations that collectively has income from
22 business activity taxable both inside and outside the
23 state, or income from other sources both inside and outside
24 the state, shall determine its income from sources in this
25 state by use of the combined method of accounting provided
26 under AS 43.20.073.

Coloss & Bernal
A PROFESSIONAL CORPORATION
424 NORTH FRANKLIN STREET
JUNEAU, ALASKA 99801
(907) 586-2777

1
2 * Sec. 3. AS 43.20 is amended by adding a new section to
3 read:

4 Sec. 43.20.073. CORPORATIONS. (a) A corporation
5 that is a member of an affiliated group shall file a
6 return using the water's edge combined reporting method.
7 A return under this section shall include the following
8 corporations if they are a part of a unitary business:

9 (1) affiliated corporations that are eligible
10 to be included in a federal consolidated return as
11 described in Sections 1501 to 1505, inclusive, of the
12 Internal Revenue Code, the average of whose property,
13 payroll and sales factors within the United States is 20
14 percent or more;

15 (2) affiliated corporations that are eligible
16 to be included in a federal consolidated return as
17 described in Sections 1501 to 1505, inclusive, of the
18 Internal Revenue Code, the average of whose property,
19 payroll and sales factors within the United States is less
20 than 20 percent, and that do not meet the requirements of
21 Section 861(c) of the Internal Revenue Code;

22 (3) domestic international sales corporations
23 and foreign sales corporations;

24 (4) any corporation, regardless of the place
25 where it is incorporated if the average of its property,
26 payroll and sales factors within the United States is 20
percent or more; and

CROSS & BERN
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Values & Burn
A PUBLIC COMPANY - 1000 W. 10TH AVENUE
424 NORTH BURNING IN 5100 E
JUNE 10, ALASKA 99501
(907) 586-2777

1 (5) tax haven corporations.

2
3 (b) The department may require a corporation filing
4 under this section to file a worldwide combined report if

5 (1) the corporation or any affiliate fails to
6 comply with the domestic disclosure spreadsheet filing
7 requirements as required by the department in regulations

8 (2) the corporation does not provide
9 information requested by the department on the operations
10 of a foreign parent necessary for the department to audit
11 the taxpayer's corporation return within a reasonable
12 period of time.

13 (c) This section does not apply to taxpayers subject
14 to AS 43.20.072 engaged in the production of oil or gas
15 from a lease or property in the state or engaged in the
16 transportation of oil or gas by regulated pipeline in the
17 state.

18 (d) As used in this section:

19 (1) An "affiliated group" is a group of two or
20 more corporations, in which 50 percent or more of the
21 voting stock of each member is directly or indirectly
22 owned by a common owner or by common owners, either
23 corporate or non-corporate, or by one or more of the
24 member corporations of the group;

25 (2) A "tax haven corporation" means a
26 corporation that is incorporated in or does business in a
country that does not impose an income tax, or that

1 imposes an income tax at a rate lower than 90 percent of
2 the federal tax rate on the federally defined income tax
3 base, and 50 percent or more of sales, purchases, or
4 payments of income or expenses, exclusive of payments for
5 intangible property, of the corporation are made directly
6 or indirectly to one or more members of a water's edge
7 group and that conducts no significant economic activity.
8

9 * Sec. 4. AS 43.20 is amended by adding a new section to
10 read:

11 Sec. 43.20.051. DEFINITIONS. "Foreign corporation"
12 means a corporation created or organized outside of the
13 United States, the District of Columbia, the commonwealth
14 of Puerto Rico or any possession of the United States.

15 * Sec. 5. This Act is retroactive to tax years beginning
16 after December 31, 1988.
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26

ALASKA STATE ARCHIVES
600 NORTH BROADWAY, SUITE 100
JUNEAU, ALASKA 99801
(907) 586-2111

George:

If you'll look at the pages I tabbed and read the highlighted part, that will give you the basics of the unitary tax bill. It's very brief.

In terms of questions, about the only ones I can think of would be for Susan Burke, the IBM lobbyist.

1-- Why is IBM the only company fighting this?

MAJERIC

2-- and... did they fight it in the other states, as one after another dropped the worldwide reporting method?



APR 28 1989

FLUOR DANIEL

Fluor Daniel Alaska, Inc.
900 West 5th Avenue, Suite 300, P.O. Box 196680
Anchorage, Alaska 99519-6680
(907) 276-2636

April 24, 1989

House International Trade Committee
Pouch V
Juneau, Ak 99811

Attention: Representative George Jacko, Chairman

Gentlemen:

PROPOSED HOUSE BILL 281
An Act Relating to Corporate Income Taxes

Fluor Daniel Alaska, Inc. is Alaska's largest engineering and construction company. It is a wholly owned subsidiary of the world wide Fluor Corporation which has a long history of work in Alaska.

House bill 281 proposes to change the basis of income taxes for foreign companies from worldwide unitary taxation to water's edge taxation. This action would discriminate against domestic corporations in competing both in Alaska and overseas.

In your deliberation of tax legislation, we strongly urge you to maintain a level hand in regards to treating foreign and domestic companies equally. If water's edge taxation is to be used for foreign companies, it should, at a minimum, be available for domestic companies as a discretionary option to worldwide unitary taxation in a manner such as that used by the State of California.

Fluor Daniel Alaska is proud to be Alaskan but should not be forced to pay a premium over our foreign competitors.

Very truly yours,


George P. Wuerch
President and Regional Manager

GPW:jnr

9114E.115

SCOMM

65:17



Alaska State Legislature

House of Representatives

Official Business

P.O. Box V
State Capitol
Juneau, Alaska 99811
907-465-4942

Special Committee On Foreign Trade

TO: IRENE CASHEN,
CHIEF CLERK

FROM: REP. GEORGE JACKO, JR.
CHAIRMAN

DATE: APRIL 27, 1989

SUBJ: COMMITTEE SCHEDULE, WEEK BEGINNING MAY 1

The House Special Committee on Foreign Trade will meet Monday,
May 1, at 10 a.m., in Room 124 Capitol, and will consider:

HB 281 Corporate Income Tax Reporting Methods



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House of Representatives

Special Committee On Foreign Trade

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State Capitol
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907-465-4942

May 1, 1989

Gennady Alferenko, Director
Foundation for Social Inventions of U.S.S.R.
Moscow, 125866
U.S.S.R.

Dear Mr. Alferenko,

As Chairman of the House Special Committee on Foreign Trade, it is my honor to extend to you and your delegation an invitation to Alaska next month.

I have been hearing much enthusiastic talk about the Alaska-Siberia Project. All over the state, Alaskans are ready and willing to contribute to this new current of friendly relations that has spread throughout our two nations. Each delegation that comes here establishes a healthy precedent for the kinds of cooperative joint ventures that can be realized.

I encourage these opportunities for our people to get together. It is this lasting spirit of sharing and cooperation that will eventually lead to a world of lasting peace.

Sincerely,

A handwritten signature in dark ink, appearing to read "George Jacko, Jr.", written over a horizontal line.

Representative George Jacko, Jr.



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Alaska State Legislature

House of Representatives

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Special Committee On Foreign Trade

May 1, 1989

Rep. Lyman Hoffman
Co-Chair, House Finance Committee
Room 507, Capitol
Juneau, Alaska 99811

Dear Representative Hoffman:

House Bill 281, which passed out of the House Special Committee on Foreign Trade today, would require multinational firms with foreign parents to file Alaska corporate tax returns using the "water's edge" method. Members of the committee believe the change proposed in this bill will remove a significant barrier to greater foreign investment in Alaska, but realize that time to fully consider the legislation during this session has run out.

Under HB 281 (and under current law), firms with domestic U.S. parents are not permitted to use the water's edge filing method. The committee heard testimony for extending this method to domestic firms, but the revenue loss apparently would be much greater -- up to \$6 million annually -- than restricting it solely to companies with foreign parents.

In referring HB 281 to your committee at this late date, it is our hope that the Finance Committee will have adequate time to do a complete and thorough analysis of the impact of this legislation on the State of Alaska's tax structure. It is this committee's hope that the Finance Committee will, with the assistance of the state Department of Revenue, develop a fuller understanding of the fiscal note attached to the bill and then move the bill to the full House for consideration as soon as possible next session.

Sincerely,

Rep. George Jacko, Jr.
Chairman

SCOMM

65:18

MEETING AGENDA

DATE: Monday, August 21, 1989

TIME: 1:00 p.m.
(Meeting scheduled until 4p.m - but we will probably stay less)

MEMBERS PRESENT: Representative Ellis, Hudson, Collins

MEMBERS ON TELECONFERENCE:

- Representative Davis - from his office in Juneau teleconference.

- Paul Fuhs, Mayor of Unalaska, from City office

SUBJECT MATTER: The House Foreign Trade Committee trip to the Soviet Union

PURPOSE OF MEETING:

- 1) Go over our trip together, and become familiar with our itinerary. *Introduce each other.*
- 2) Learn about the Soviet Union and the Soviet Far East.

We depart in exactly one month. I thought it was a good strategy to get us together far ahead of time so we can begin to function and think like a group before we step off the plane together for the first time in the Soviet Far East.

This meeting is also the first in a series of briefings to educate and orient this committee on all that is happening between Alaska and the Soviet Union.

I think it is essential we, as an official delegation of legislators, be as knowledgeable as possible on the history and progress of Alaskan-Soviet Affairs. I have invited a few guest speakers who I feel are best qualified to do just that -- Allow me to introduce.....

GUEST SPEAKERS:

1) Gunnar Knapp, Associate Professor of Economics
Institute for Social and Economic Research
University of Alaska, Anchorage
(Has done much research on the topic of Alaska-SFE affairs, the reports he has published for ISER on your desk for your reference)

2) Diddy Hitchins, Professor of Political Science
University of Alaska, Anchorage
-(Has been to USSR several times, the most recent trip this May)

3) Ron Miller, International Trade Specialist
Governor's Office of International Trade
(Degree in Russian studies, works with the Gov's office on
facilitating many Ak-Soviet trade projects - he will accompany
us on our delegation.

4) John Tichotsky
Interpreter for our delegation and researcher at ISER
Will go with the Governor's delegation August 31 and will also
accompany our delegation as well.

Before we hear the presentation, however, first let me briefly
introduce who will be coming on our trip. There will be nine
of us, and everybody is here (see attached list).

→ (Explain Johnny Ellis has to leave at 2p.m)

NEXT MEETING:

September 5th, this room
12:00 p.m. to 2:00

Overview of private businesses trading with the SFE, and we
will hear from State Department and federal officials on the
U.S. laws and regulations affecting Soviet-American trade.

Please come! It is essential we have a thorough grounding of
the fundamentals of trading with the Soviets.

September 19 or 20 (we're not sure yet) the Governor's Office
of Trade will brief us on the Governor's accomplishments
(He will be there Aug. 31 to Sept. 12th?)

Thank you!!

NOTES:

Be sure to break half way through if meeting is lengthy.

QUESTIONS YOU MAY WANT TO CONSIDER ASKING:



Official Business

Alaska State Legislature

House of Representatives

Special Committee On Foreign Trade

P.O. Box V
State Capitol
Juneau, Alaska 99811
907-465-4942

M E M O R A N D U M

TO: All Members
House Foreign Trade Delegation to the Soviet Fareast

FROM: Representative George Jacko, Jr. *[Signature]*
Chairman, Foreign Trade Committee

DATE: August 16, 1989

SUBJECT: Committee trip to the Soviet Union

As our departure date (September 21) is nearing, it is essential we be as knowledgeable as possible on the issues facing Alaska-Soviet relations.

Please take note of the following meetings. Your attendance is very important and would be greatly appreciated.

MEETING SCHEDULE

Monday, August 21, 1989

2:00 to 5:00 p.m. Senate Conference Room, 5th Floor,
Anchorage LIO

Topic: General Overview of Alaska-Soviet relations

1. This first meeting will consist of a brief overview of the recent political and economic changes in the Soviet Union, with particular emphasis on how these changes are affecting the Soviet Fareast, and the potential ramifications for Alaska.
2. Overview of the chronology of Alaska-Soviet relations and a summary of the various Alaskan entities (business, trade, cultural, scientific groups) currently working with the Soviet Fareast.
3. Overview of the Committee's Soviet Fareast itinerary and introduction to additional members who will accompany our delegation.

Gunnar Knapp, Associate Professor of Economics at the Institute of Social and Economic Research, Diddy Hitchins, Professor of Political Science at the University of Alaska Anchorage and Ron Miller, International Trade Specialist with the Governor's Office of International Trade will give the presentation.

Page 2

Tuesday, September 5

Topic: Advantages and limitations of Alaska-Soviet trade
12:00 to 2:00 p.m. Senate Conference Room, 5th Floor,
Anchorage LIO

The Committee will hear from the various Alaskan private businesses now trading with the Soviet Union, and receive an overview of the federal laws and regulations affecting trade with the Soviet Union.

Tuesday, September 19 or Wednesday, September 20:
Meeting time and place still to be determined

(**TENTATIVE**)

Topic: Governor's trip

The Committee will receive a briefing from the Office of International Trade on the accomplishments of the Governor Cowper's trip that will have returned from the Soviet Far East September 15.

September 21, Thursday

Trip begins

8:20 a.m. Alaska Airlines departure to Nome

Please call my office at 561-6154 with any questions.

Thank you.

SCOMM

65:19



Official Business

Alaska State Legislature

House of Representatives

P.O. Box V
State Capitol
Juneau, Alaska 99811
907-465-4942

Special Committee On Foreign Trade

MEMORANDUM

TO: All Members
House Foreign Trade Delegation to the Soviet Fareast

FROM: Representative George Jacko, Jr. *ni to H*
Chairman, Foreign Trade Committee

DATE: August 16, 1989

SUBJECT: Committee trip to the Soviet Union

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Please take note of the following meetings. Your attendance is very important and would be greatly appreciated.

MEETING SCHEDULE

Monday, August 21, 1989

17:00 to 18:00 p.m. Senate Conference Room, 5th Floor,
Anchorage LIO

Topic: General Overview of Alaska-Soviet relations

1. This first meeting will consist of a brief overview of the recent political and economic changes in the Soviet Union, with particular emphasis on how these changes are affecting the Soviet Fareast, and the potential ramifications for Alaska.
 2. Overview of the chronology of Alaska-Soviet relations and a summary of the various Alaskan entities (business, trade, cultural, scientific groups) currently working with the Soviet Fareast.
 3. Overview of the Committee's Soviet Fareast itinerary and introduction to additional members who will accompany our delegation.
- Gunnar Knapp, Associate Professor of Economics at the Institute of Social and Economic Research, Diddy Hitchins, Professor of Political Science at the University of Alaska Anchorage and Ron Miller, International Trade Specialist with the Governor's Office of International Trade will give the presentation.

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Tuesday, September 5

Topic: Advantages and limitations of Alaska-Soviet trade
12:00 to 3:00 p.m. Senate Conference Room, 5th Floor,
Anchorage LIO

The Committee will hear from the various Alaskan private businesses now trading with the Soviet Union, and receive an overview of the federal laws and regulations affecting trade with the Soviet Union.

~~Tuesday, September 19~~ or Wednesday, September 20:
Meeting time and place still to be determined

(**TENTATIVE**)

Topic: Governor's trip

The Committee will receive a briefing from the Office of International Trade on the accomplishments of the Governor Cowper's trip that will have returned from the Soviet Far East September 15.

September 21, Thursday

Trip begins

8:20 a.m. Alaska Airlines departure to Nome

Please call my office at 561-6154 with any questions.

Thank you.

*— please keep
morning open
if possible*



Official Business

Alaska State Legislature

House of Representatives

P.O. Box V
State Capitol
Juneau, Alaska 99811
907-465-4942

Special Committee On Foreign Trade

MEMORANDUM

TO: Businesses participating in Alaska-Soviet trade

FROM: Representative George Jackson, Jr.
Chairman, Foreign Trade Committee
House of Representatives
Alaska State Legislature

DATE: August 30, 1989

SUBJECT: September 5th meeting

I would like to invite you to participate in a meeting of the House Special Committee on Foreign Trade this Tuesday, September 5th from 12:00 to 3:00 in the Senate Conference Room on the 5th floor of the Anchorage Legislative Information Office located at 3111 "C" Street.

As the Foreign Trade Committee will soon depart to the Soviet Far East, it is essential for all members to have a clear understanding of Alaska-Soviet trade relations. Although our trip will not focus exclusively on trade, the purpose of this meeting is to brief state lawmakers on the fundamentals of trading with the Soviets. We would like to hear from the various Alaskan business entities with experience and knowledge in this area.

A 10 or 15 minute briefing the following would be helpful:

- 1) Who you are and what your company does
- 2) A profile of the Alaska-Soviet project(s) currently underway in your company/business
- 3) The problems, benefits, prospects, realities, etc... of trading with the Soviet Union and any suggestions you would have for the Foreign Trade committee.

We look forward to your participation. Please contact my office 561-6154 with any questions.

If you will participate by teleconference, the bridge number is 562-2877. However, please call Heather at 561-6154 to confirm space.

Thank you.

Enclosure

MEETING AGENDA

HOUSE SPECIAL COMMITTEE ON FOREIGN TRADE, SEPTEMBER 5, 1989

12:00 - 12:30

Overview of current U.S.-Soviet relations and the federal laws and regulations affecting U.S.-Soviet trade:

On teleconference from Washington D.C.:

**Judy Deane and Wayne Neil
Economic Officers
Economic Section of Office of Soviet Affairs
U.S. Department of State**

**Jessica Gavora, Staffmember
Office of Senator Murkowski
Bill Wolfe, Fisheries Issues**

12:30 - 2:00

Representatives from Alaskan companies currently trading with the Soviet Union will present ten to fifteen minute summary of their activities:

**Alaska Airlines
Alascom
Greatland Exploration, Ltd.
Alaska Commercial Company
Alaska Joint Venture Seafoods
Indian Valley Meats
Bering Air
Slava International**

Break

2:00 - 3:00

Questions and Answers between committee members and guest speakers

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Place:**

**Tuesday, September 5th, from 12:00 to 3:00 p.m.
Senate Conference Room, 5th Floor
Anchorage Legislative Information Office
3111 "C" Street, Anchorage, Alaska
Contact phone: 561-6154**

House Special Committee of Foreign Trade:

**George Jacko, Chairman
Johnny Ellis
Mike Davis
Bill Hudson
Virginia Collins
Heather Bradner, staff member**

Also invited:

**Senate Special Committee on Trade and Tourism
Members of the House Special Committee on Tourism**

*-technology controls
-J-Vanik*

*Orlan
276
5110*

PERSONAL GIFTS:

If you get your gifts together by August 30th, I can send them to Magadan in advance to save you space. It is important to remember we are limited to 1,350 pounds between the eight passengers while crossing the Bering Strait. On Aeroflot (which we will fly everywhere within the Soviet Union) the average luggage weight allowed per person is 44 lbs. So, small, portable, light gifts are ideal.

I. You will need many "little trinkets" between \$1 and \$2:

- Writing pens (felt tip are good)
- Alaskan post cards
- Magazines (especially current issues)
- Items for kids: Gum, candy, stickers, buttons, pins and childrens books (with illustrations).
- Bring photos of yourself, your home, your family to show or to give away. These are also great gifts.
- Alaska flag pins available through LIO

II. \$5 to \$8 gifts:

-Solar calculators - these are considered very precious, and can be extremely expensive to buy within USSR. Bring many! (You can also get cheap calculators at Pay n Pak for \$1-\$2)

-Paperback books - especially classic authors like Twain, Steinbeck, Faulkner, are great gifts for any English speakers you meet, and you can probably find paperbacks in good condition at Salvation Army or at a library exchange

-Calendars (for 1990) - especially with Alaska scenes

-Clothing: Scarves (good gifts for women) t-shirts

-Perfume: Small samples of perfume are given away at many department stores. You could bring a few as gifts for women.

-"Bill Spear" pins: When you purchase these, be sure to mention they are for a foreign destination - you may get a discount. You can also get a 50% discount on Bill Spear pins when you buy 50 or more of the same kind. We may want to do this and divide the cost.

Any Alaskan items: Picture books, Alaska magazines, pins, buttons, etc...

III. The Committee on Foreign Trade will bring the formal gifts for government officials. You will want to bring small gifts as tokens of appreciation for the tourguides, teachers, fishermen, hotel clerks, busdrivers, schoolchildren etc...

You will also want a few nicer gifts for the "legislators" you meet in the Soviet Union (calendars are good).

end.

OFFICIAL GIFTS TO USSR:

(** To be purchased and organized through the Committee
Don't worry about these)

For Chairmen of the Executive Committees of Magadan,
Petrovavlovsk, Vladivostok and Khabarovsk:

4 Books entitled The Divided Twins: Alaska and Siberia
A plaque (for sister state and maybe Magadan)

For Deputy Chairman:

4 Alaska Blue Books

For various Executive Committee members:

A legislative citation with all members names written
Solar calculators
Calendars of Alaska
Photo/picture books of Alaska
Paperback novels of Michener's "Alaska"

For Ministry Officials (of Science, FESCO, TINRO, etc.):

Video tapes (converted) of oil spill, Alaska, etc...)
Alaska Geographic Society books on Alaska (resources)
Pen sets (inexpensive)
Maps of Alaska (showing their related interest, i.e.,
a fisheries map for Ministry of Fish Industry
official

Miscellaneous official gifts (many of which are free):

Alaska flag pins
USA-USSR or Alaska-USSR flag pins
Alaska calendars
Lots of prepared "legislative packets" consisting
of state directories, handouts, etc...
Small maps of Alaska

Schools:

Large, fold up maps of Alaska for wall
Alaska photo books
Packets of postcards, posters, buttons, pins

Traveller!

A list of recommended items and clothing to bring on our trip include the following:

ITEMS:

All film and batteries you will need for the trip
(lead lined bag?)

some toilet paper!

medication

aspirin, throat lozenges, cold medicine, any prescription
drug generally used, laxatives, medicine for
diarrhea, vitamins?

pictures of your family, house, town

your business cards

maybe a few American candy bars or snacks (tea, cup-a-soup)
for yourself

extra empty bags to bring back your gifts

small alarm clock (probably unnecessary as I will have one)

small calculator for yourself

sunglasses

small Russian dictionary

....Please adapt for your own personal needs

CLOTHING:

Only one piece of luggage - a hard case suitcase is best

One carry on item only

Total luggage must be 44 lbs or less, as Aeroflot limits weight. Remember, I can forward your gifts to USSR if you get them to be me by September 29 (Governor's delegation can take them)

Men:

One suit w/ tie and dress shoes (business)

One casual outfit: sportjacket, slacks, shirt (for less formal but still nice occasions)

half a dozen dress shirts

A set of comfortable travel clothes

jeans, sweatpants, T-shirts, etc...

Good pair comfortable walking shoes

Jacket/coat (we may be in rainy climate)

Women:

Same style of dress required as above

Both men and women:

swimwear (Soviet banas, or steambaths)

soap/detergent (Soviet hotels won't wash your underwear - you will have to -- so bring soap!)

hat/gloves

MEETING AGENDA

DATE: Sept. 5, 1989

TIME: 12:00 noon

MEMBERS PRESENT: Rep. Jacko, Chair

Rep. Hudson

Rep. Collins

Rep. Ellis (can only make part of mtg.)

Rep. Davis

Paul Fuhs, Mayor, Unalaska
on teleconference

MEMBERS ON TELECONFERENCE:

Rep. Davis from Juneau

Mayor Paul Fuhs, Unalaska

SUBJECT MATTER:

Alaska-Soviet trade relations

PURPOSE OF MEETING:

As the Special Committee on Foreign Trade will depart in less than 3 wks to USSR, the purpose of this meeting is to brief law and public policy makers on the status of trade relations with Soviet Union.

Would like your advice on what we should be aware of.

GUEST SPEAKERS:

(INTRODUCE)

We have here today many representatives from federal government and private enterprise. On line from Washington D.C. are:

(see enclosed sheet)

Here from Alaskan businesses are:

(see enclosed sheet)

SPECIAL CONSIDERATIONS:

I'd also like to introduce other legislators here

.... Kay Brown? David Finklestein? Szymanski?

Introduce Ron Miller and Heather Bradner.

Gunnar Knapp?

12:30 - 2:00

We have on teleconference and in person many representatives from business community who have experience and knowledge in trading with Soviet Union. They will each give us a 10 minute briefing on their experiences w/ trading w/ USSR! First, on teleconference is:

① Alaska Airlines representative Bill McKay

Alaska Airlines has been trying to gain permission to land in Soviet Union. They also flew the hallmark "Friendship Flight" from Nome to Provideniya last June. general Bill, could you give us some ~~history and insight into projects~~ ~~sent~~ information on your company's project

② Alascom

Alascom representative Tom

Alascom has recently installed a telephone link across Bering Sea from Gambell to Provideniya - for anyone who has recently tried to make a phone call to Soviet Union, what was normally a long and difficult process is now much easier thanks to Alascom. Tom could you brief us on this project:

③ Bering Air - Jim Rowe, Richard Stern, owners

Bering Air, company from Nome, recently got permission to charter flights across the Strait to Provideniya.

Incidentally, we will be flying with Bering Air when we depart Sept 21.

Jim ~~Rowe~~ could you give us a profile on the history of your charter service?

In person, we have:

④ Samuel Salkin, ^{president} Alaska Commercial Company

Sam has been to Soviet Union - and he accompanied Governors delegation last October to Khabarovsk and Vladivostok. Could you tell us what you have learned from your experiences there, and give any suggestions for our committee?

⑤ Ron Sheardown, President, Greatland Exploration
has also been to Soviet Union many times and also accompanied Gov. Cowpers delegation last October along with Sam Salkin.