

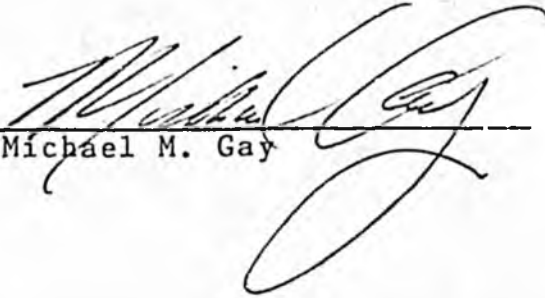
ALASKA LEGISLATURE COMMITTEE FILES 1983 - 1984 8672

2587 HLC HB 654

2587

SUBMITTAL

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


Michael M. Gay

ATTACHMENT "A"

Letters from Korean business leaders.



KOLON INTERNATIONAL CORP

C P O BOX 1052 SEOUL KOLON BLDG 45 MUGYO-DONG JUNG-GU, SEOUL, REPUBLIC OF K
TEL: 771-57 / CABLE ADD: KKK TRADE SEOUL / TLX: KKK TRDG K23226, KKK TRDG K2
KOLONT K26591

Mr. Joe L. Hayes
Speaker of the House of Representatives.
Alaska State Legislature

January 16, 1984

Dear Sir,

It is an honor for us to express our sincere gratitude to you for Alaska State's intention to open a trade office in Seoul. We firmly believe this planned office will do much to increase trade and business relations between Alaska and Korea.

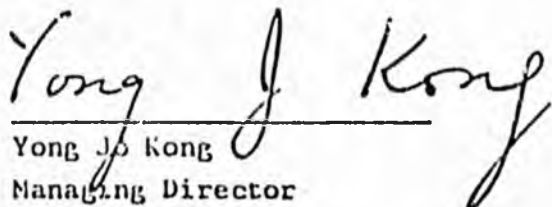
We, Kolon International Corp., very much welcome your proposal, and as an importer-exporter and investor, will be foremost to use this planned-office in the future. And we sincerely hope that we may be able to offer you any assistance in the establishment and functioning of this office.

We hope that sometime in the near future your plan will include a trip to Korea and at that time you will offer us the opportunity of receiving you at our main offices.

We send you our best regards and intentions both to you and entire state of Alaska.

Sincerely Yours,

KOLON INTERNATIONAL CORP.


Yong Jo Kong
Managing Director

CC: Mr. Michael M. Gay

SAMSUNG CO., LTD.

C. P. O. BOX. 1144, SEOUL, KOREA. TEL : 771 33, TLX : STARS K2385/77130/77116/9

Jan 10, 1984

Mr. Joe L. Hayes
Speaker of The House
Pouch V
State Capital
Juneau, Alaska 99811

Dear Mr. Hayes :

It is my great pleasure to take this opportunity to give our ~~whole-hearted welcome and support to your initiating a feasibility~~ study of opening a trade office in Seoul.

Samsung Co., Ltd. is already participating in the Bering coal field development project through our KADCO consortium since 1981 and now we are also studying timber development project with Soulaska corp.

Moreover, we have expressed our keen interests in the Alaskan LNG and petrochemical project when Mr. Hinkel visited Seoul last December. To facilitate our efforts, Samsung is opening an Anchorage offices, beginning this January.

If your trade office would be established in Seoul, reciprocating our Korean efforts as soon as possible, we are sure a bilateral trade between Alaska and Korea can be tangibly activated. Economic cooperation, especially in the fields of natural resources, agriculture, construction and plants for Alaska based industry etc., would be something to watch with great expectations.

We hope your wise vision would bring success and good results.

Sincerely,



Joo Hyon Kyong
President
Samsung Co., Ltd.



**KUKJE-ICC
CORPORATION**

TRADE & MANAGEMENT
C. P. O. BOX 707 Seoul, Korea
CABLE : KUKJECC SEUL
TELEX : KUKJECC K 2234 - 6, K 26548, K 27251, K 27262
PHONE : 771-61771-81

CONSTRUCTION
C. P. O. BOX 638 Seoul, Korea
CABLE : "IGECOM SEUL"
TELEX : IGECOM K 2631
PHONE : 740-8151-9735-7461-8

Date: January 15, 1984

His Excellency
Mr. Joe L. Hayes
Speaker of the House
Alaska ~~State~~ Legislature

Your Excellency :

Few days ago, I had an opportunity of meeting Mr. Michael M. Gay who was introduced to me by Mr. Pio Y. Park. At this meeting we discussed many interesting topics regarding the Korea-Alaska business potentials and possibility of establishing a Alaskan office here in Korea.

As I am in the position of developing oversea businesses within our corporation, I am keenly aware of the fact that overall informations about the state of Alaska or lack of them may influence significant future business decisions. Most of the Korean business men, including myself, have very romatic notions about the Alaska but see few business potentialities. To be more specific, we do not know the details of the natives and Alaskan State, the commercial laws, the labor relationships and other federal laws that may govern the Korean side involvements.



**KUKJE-ICC
CORPORATION**

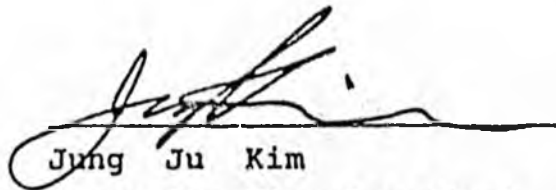
TRADE & MANAGEMENT
C. P. O. BOX 717 Seoul, Korea
CABLE: KUKJECO SEIKIL
TELEX: KUKJECO K 2251-8, K 2644, K 7751, K 2174
PHONE: 771-4771-81

CONSTRUCTION
C. P. O. BOX 638 Seoul, Korea
CABLE: "ICECON SEUL"
TELEX: ICECON K 2611
PHONE: 720-8151-9/720-741-5

By establishing the Alaskan office in Korea will solve and clear all of these questions. What is more important in my opinion is that it will create both Alaska and Korean exposures that are both beneficial to each other.

In our judgement, the timing is right and hope that you will set up such an office in Korea.

Very truly yours,



Jung Ju Kim
Executive Vice President
Kukje-ICC Corporation

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: HB 654
 Title: "An Act relating to Alaska Foreign Offices"
 Sponsor: Hayes
 Requestor: House Labor/Commerce
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Commerce & Economic Development
 Program Category Affected: Economic Development
 BRU, Program or Subprogram(s) Affected: Economic Development Advocates BRU
International Trade Component

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<u>OPERATING</u>						
100 PERSONAL SERVICES		101.1	106.2	111.5	117.1	123.0
200 TRAVEL		25.0	26.3	27.6	29.0	30.5
300 CONTRACTUAL		293.9	308.6	324.0	340.2	357.2
400 SUPPLIES		14.0	14.7	15.4	16.2	17.0
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
<u>TOTAL OPERATING</u>		434.0	455.8	478.5	502.5	527.7
<u>CAPITAL</u>						
<u>REVENUE</u>						

FUNDING: (Thousands of Dollars)

GENERAL FUND		434.0	455.8	478.5	502.5	527.7
FEDERAL FUNDS						
OTHER						
<u>TOTAL</u>						

POSITIONS:

FULL-TIME		1.0	1.0	1.0	1.0	1.0
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Lois Cook, Director Phone: 465-2505
 Division: Administrative Services Date: _____
 Approved by Commissioner: Richard A. Lyon Date: 2/22/84
 Agency: Commerce & Economic Development

Distribution (by Agency preparing fiscal note):

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

12/1/83

Personal Services - 101.1 - One Far East Representative

Travel - 25.0

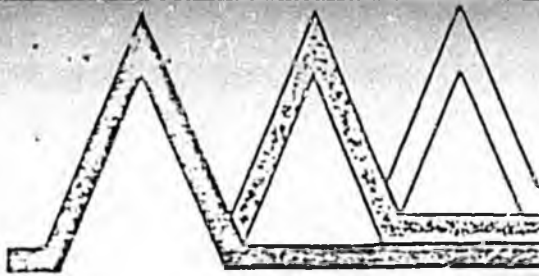
Contractual - 293.9

Communications -	35.0
Printing & Advertising -	13.0
Space Expense & Fees -	90.0
Repair & Maintenance -	2.0
Equipment Rental -	4.0
3 Contract Nationals -	78.0
Contractual Funds -	17.9
Hospitality -	37.3
Miscellaneous -	16.7

Commodities - 14.0

ATTACHMENT C

State Foreign Trade Offices



WESTERN CONFERENCE

THE COUNCIL OF STATE GOVERNMENTS

720 SACRAMENTO STREET, 3RD FLOOR SAN FRANCISCO, CALIFORNIA 94108 (415) 986-3760

December 19, 1983

John Sherwood
Alaska House Research Agency
Pouch Y
Juneau, AK 99811

Dear John:

Enclosed are the materials I found on states' foreign trade promotion offices.

Enclosure 1 is from a publication that the Council of State Governments (CSG) did earlier this year, Economic Development: A Survey of State Activities. The information from the study was gathered in a survey sent in September of 1982. Bob Reinshuttle, the contact person at CSC that I gave you, produced the finished report.

Enclosure 2 is from a report produced by the National Governors' Association in 1981. The report, Export Development and Foreign Investment: The Role of States and its Linkage to Federal Action, was developed using information NGA gathered through a survey of state officials.

Enclosure 3 is excerpted from a book written by John Kline, State Government Influence in U.S. International Economic Policy (Lexington Books, 1983). The chapter I have sent you provides more detailed background on state export promotional activities, including foreign trade offices. I recommend the entire book if you are looking for information on other aspects of state foreign-trade activities.

The National Association for State development Agencies (NASDA) did its own survey on states' export promotion activities (I gave you Marsha Clarke as a contact there). The NASDA survey is probably the most recent work in that area.

I hope all of this is helpful to you. Call me if you have any questions if our office can provide you with further assistance.

Sincerely,

Mark Klender
Policy Analyst

MKsk/WC10a-01

Council of Legislators - representing the following States

Alaska • American Samoa • Arizona • California • Colorado • Commonwealth of the Northern Mariana Islands
Guam • Hawaii • Idaho • Montana • Nevada • New Mexico • Oregon • Utah • Washington • Wyoming

INDUSTRIAL DEVELOPMENT: ADVERTISING, MEDIA PROMOTION AND PUBLICATIONS

Comparison between expenditures for non-tourist advertising and promotion in fiscal 1932 shows a striking contrast. Six states spent nothing, while 11 spent over \$500,000. The largest expenditures for advertising and promotion were by New York (\$6.95 million), Maryland (\$1.2 million), and Kentucky (\$1 million). Other significant expenditures were by Florida, Louisiana, Massachusetts and Pennsylvania.

In fiscal 1983 budgets, the recession was reflected in nearly every state, and there was much debate in the legislatures and executive offices as to whether promotional budgets should be increased to attract more business and industry to the state, or reduced as part of an overall budget reduction plan. Eight states chose the latter by reducing expenditures (Arizona, Florida, Georgia, Hawaii, Kentucky, Mississippi, Montana, and Wisconsin). Most states, however, decided that a greater commitment should be made to promote their state as a good place to do business. As a result, five states will spend above a million dollars on that activity: New York (\$9.38 million requested), Michigan (\$1.5 million), Maryland (\$1.3 million), Massachusetts (\$1.05 million), and New Mexico (\$1.033 million).

Of the states whose budgets have received final approval, the largest percentage increases will take place in Illinois, Michigan, Oregon, Tennessee, Utah, Vermont, Washington and West Virginia. It is interesting to note that many of these states have suffered the most severe budgetary and economic difficulties during the past few years.

Caution should be used in making direct comparisons between state budgetary figures. States which spend very different dollar amounts for advertising and promotion may nevertheless be spending comparable percentages of their total budgets for that purpose, and in a few cases a special promotional effort may have swelled the promotion budget out of proportion to past expenditures.

Of the 45 states responding to this question, 24 indicated that the amount allocated for promotion and advertising is determined exclusively by the legislature, while 19 said expenditures are determined by administrative decision. In Nevada and Virginia, the decision is made by both legislative and administrative action. (See Table 13.)

Advertising Media

Forty-four states indicated that they advertise through one or more of the following media: newspapers, magazines, radio, television, billboards and direct periodicals. California, Minnesota and New Hampshire do not advertise but produce their own publication. Colorado does not budget for advertising and promotion. (See Table 14.)

Field Representatives

Field representatives cover two basic areas: in-state, to provide services to local industry, communities and development groups; and out-of-state, to make contact with industrial prospects, provide them with information on locations in state, and render location assistance to prospects once they move into the state. Overall, field representatives provide information, technical and coordinating services.

Twenty-four states employ in-state field representatives. Kansas has such a proposal under consideration, and Alabama uses regular line staff to meet these responsibilities. Eight states use field representatives for work outside the state, and 19 use field representatives outside the United States.

Seven states reported having information centers located outside their own jurisdiction. The two most popular locations are New York City and Washington, D.C. Centers there primarily provide industrial development and trade facility information to interested persons.

Foreign Offices to Promote Industrial Development and Trade

Twenty-three states reported having at least one foreign office engaged in promoting state products, providing information, and assisting foreign corporations who may be interested in locating a plant within their state. Most states have their offices in Japan, Belgium and West Germany; however, other locations include England, China, Canada, Mexico, Brazil, Switzerland, France and The Netherlands. Most foreign offices focus on a region rather than merely concentrating their efforts on the country in which they are located. The exceptions are Michigan, whose office in Tokyo works only with Japanese repre-

similar posture in its foreign offices in Japan and Canada. Virginia employs the largest staff in its foreign offices (six in Japan and eight in Belgium). The average number of staff per foreign office is three; however, larger staffs are commonly placed in European offices.

Within the past five years, 10 states have expanded their foreign operations (Alabama, Florida, Georgia, Illinois, Maryland, Missouri, Nebraska, New York, North Carolina, Pennsylvania and Virginia), while two states have reduced their visibility in other parts of the world (Louisiana and Washington). Ohio recently shifted its West Germany office to Belgium. Three states (Maryland, Missouri and Ohio) plan to expand their foreign operations in 1983, and Illinois opened an office in Japan in January. (See Tables 15 and 16.)

Number of Employees

State	Regional Focus	Number of Employees									Office Changes in Last Five Years	Planned Changes in 1983		
		Japan	Belgium	West Germany	England	China	Canada	Mexico	Brazil	Switzerland			Netherlands	France
Alabama	Yes except Japan	4		1	2							2	Expand	None
Connecticut	Yes			2									None	None
Florida	Yes	•		2									Expand	None
Georgia	Yes	3	3					1					Expand	None
Illinois	Yes	1	7			2				5			Expand	Japan open 1/83
Indiana	Yes	1	2										None	None
Iowa	Yes			2									None	None
Kansas	...			•	•									
Louisiana	Yes			1									Reduction from 2 to 1	None
Maryland	Yes	2	3										Expand	Expand
Massachusetts	...	•	•											
Michigan	Yes except Japan	2	5.5										None	None
Missouri	Yes	2		3		1						1	Expand	Expand
Nebraska	Yes	•	•										Expand	None
New York	Yes except Japan /Canada	2		2	2		4						Expand	None
North Carolina	Yes	2		2									Expand, Japan opened	None
Ohio	Yes	3	4										W. Ger. replaced by Belg.	Expand
Pennsylvania	Yes	•	•	•	•								Expand	None
South Carolina	Yes		2										None	None
Texas	No								2				None	None
Vermont	No						2.5						None	None
Virginia	Yes	6	8										Expand	None
Washington		3	contract staff										Reduction	None

• Consultant on contract.

Foreign Offices

2

An important part of trade organization for many states is the overseas offices. Although there has been some debate in the past over their utility and cost effectiveness, the continuing increase in the number of overseas offices indicate their importance to states' commercial interests overseas. Data compiled in 1976 show nineteen states with overseas offices. This survey, conducted in October 1980, indicates that thirty-three states are represented overseas and that there are sixty-six offices. Some of these offices (those organized by regional commissions) are shared by several states, while several states have more than one office to represent them around the world.

States have this kind of continuous representation in all parts of the world. Europe was the first target when states began to set up these offices more than a decade ago. Japan then became a focus of activity. Now seventeen different countries host state representatives. Most of these offices have regional responsibilities, making it clear that state economic activities reach into most parts of the world.

Our survey data showed that overseas offices could be categorized by the type of authority administering them. First, there are offices maintained by the state unit charged with primary responsibility for increasing international commerce (the economic development office or similar department) or by closely allied offices (such as those in charge of tourism). Secondly there are offices maintained by quasi-public, semi-autonomous state organs, such as port authorities. Finally, there are offices operated by regional organizations such as non-state port authorities or planning commissions. Some states, particularly in the West, work through this kind of office rather than

TABLE 11.4 - STATE OFFICES ABROAD

	BELGIUM	DENMARK	FED. REP. OF GERMANY	FRANCE	GREAT BRITAIN	GREECE	THE NETHERLANDS	SWITZERLAND	BRAZIL	COLUMBIA	MEXICO	PANAMA	AUSTRALIA	HONG KONG	JAPAN	SINGAPORE	CANADA
ALABAMA				X				X									
ALASKA		X	X														
ARIZONA																	
ARKANSAS	X																
CALIFORNIA																	
COLORADO																	
CONNECTICUT			X														
DELAWARE	*								*				*	*			
FLORIDA			X												X		
GEORGIA	X		*		*										X*		
HAWAII																	
IDAHO															**		
ILLINOIS	X							X						X			
INDIANA							X		X								
IOWA			X														
KANSAS																	
KENTUCKY	X																
LOUISIANA	X		X	X							X	X	X	X			
MAINE																	
MARYLAND	X				X								X	X			
MASSACHUSETTS	X														X		
MICHIGAN	X														X		
MINNESOTA																	
MISSISSIPPI																	
MISSOURI			X													X	
MONTANA			**												**		
NEBRASKA			**												**		
NEVADA																	
NEW HAMPSHIRE																	
NEW JERSEY	*				*		*	*	*						*		
NEW MEXICO																	
NEW YORK					X										X		
NORTH CAROLINA			X												X		
NORTH DAKOTA			**												**		
OHIO	X														X		
OKLAHOMA																	
OREGON															**		
PENNSYLVANIA			***												***		
RHODE ISLAND																	
SOUTH CAROLINA	X														X		
SOUTH DAKOTA			**												**		
TENNESSEE																	
TEXAS										X							
UTAH																	
VERMONT																	X
VIRGINIA	X							X							X		
WASHINGTON															X	X	
WEST VIRGINIA																	
WISCONSIN																	
WYOMING			**												**		

- X = one or more state offices
 * = Regional Ports Authority offices
 ** = Regional Planning Commission offices
 *** = Private state group offices

maintaining their own facilities abroad.¹⁰ Appendix III lists state overseas offices of all types.

Staffing arrangements for overseas offices also varied. In some cases the staffs were employed by the state and solely represented the state. In other cases, the state retained only a consultant or business contact, either on its own or through a regional planning commission.

Different state departments, such as economic development offices and port authorities (or even the same) sometimes maintained separate offices in different foreign country. In other cases, different departments from the same state shared offices or consultants in the same foreign country. For a list of overseas representation by state and country, see Table II.4.

Policy Implications and Recommendations

This chapter outlines the continuing increase in foreign trade activities by states. Figures on overseas trade missions, the hosting of foreign delegations (whether or not visits are directly tied to commercial exchanges), and the proliferation of state offices overseas suggest the scope of the states' activity. Organizational developments also give expression to expanding overseas interests. Traditional bureaucratic organs have been given new responsibilities and in some cases specialized agencies have been created. The emergence of a substantial number of trade-related interests within states has required special mechanisms to foster cooperative relations between state governments and their trade communities. Advisory councils in which the entire trade community is represented have been organized by some governors to deal with this situation. In other states the proliferation of trade activities and interests remain to be

^{10/} A fourth type, unofficially representing the state of Pennsylvania, was operated by a private state regional economic development association.

area within the state. New Hampshire, which targeted both rural and economically depressed areas, noted that a labor market sufficient to meet an industry's needs was one of its basic criteria used in assisting firms wishing to relocate there. Table III.8 provides a summary of internal targeting by the states.

Foreign Area Targeting

A look at where states choose to market state products or to seek overseas investors is instructive in several ways. It suggests the extensiveness of state-based commercial networks around the world. Foreign areas where state effort is most concentrated are identified, as is the presence of state activity in those international markets with the greatest potential.

Taken collectively, state overseas interests reach into most areas of the world. The major regions identified for market development are Europe, Asia and Latin America. It does not appear from the survey that states have given much attention to the trade opportunities available in Eastern Europe, Africa, or West Asia.

That states' export promotion efforts do give greater focus to well-established markets is apparent if we note those cases where specific countries are mentioned. In questionnaire responses, states tended to identify regions or continents rather than individual countries. The list of countries which were also specified includes only modern or rapidly modernizing countries. For the most part, specific countries within Third World markets were not identified.

The survey provides no surprises in the area of targeting investment. For most states the major sources of foreign investment are the developed countries. Western Europe, Canada, and Japan focus most state effort. A few states do look to the rapidly modernizing economies of Taiwan, Mexico, and South Korea.

A detailed breakdown of where states concentrate their overseas activities is provided in Table III.9. It illustrates the considerable diversity of states in their targeting of international business. Of the forty-four states from which data was collected regarding foreign targeting and export promotion,⁴ thirty-one concentrated on particular geographical areas. Vermont, while not engaging in targeting per se, has participated in trade shows and missions held in West Europe and Latin America. Wyoming had no targeting policy; it confined its international business activities to participation in the Old West Regional Commission, leaving to that organization such policy decisions. The eleven states did not specify any specific region or country for export promotion include: Arizona, Colorado, Delaware, Georgia, Iowa, Nebraska, Nevada, North Carolina, Pennsylvania, South Dakota, and Utah.

Among the thirty-two states targeting foreign areas for export promotion, regions or continents were specified sixty-two times, particular countries twenty-four times. Preferences for European and Asian regions were equal (twenty each), followed closely by Latin America (eighteen). Two states identified the Pacific Rim countries. The particular countries mentioned as targets for export promotion were: Canada (by 5 states); Mexico (by 4 states); Japan (by 3 states); Germany (by 2 states); and Taiwan (by 2 states). Argentina, Australia, Brazil, China, Denmark, New Zealand, South Korea, and Venezuela were each mentioned by one state.

Of the forty-six states for which data was collected regarding foreign targeting and reverse investment, thirty-five concentrated on particular areas overseas. As in the case of export promotion, Wyoming leaves such targeting up to its regional commission. The twelve states that do not target specific foreign areas for attracting investment

⁴/ Insufficient data for Louisiana, North Dakota, South Carolina, and West Virginia.

TABLE III.9 - REGION/COUNTRY TARGETS OF STATE
INTERNATIONAL BUSINESS ACTIVITY

	Export Promotion	Reverse Investment
ALABAMA	Central/South America, Far East, Europe	Europe, Far East
ALASKA	Japan, Germany Denmark, Taiwan	Germany, Denmark, Taiwan
ARIZONA	---NONE---	Japan, West Europe, Taiwan, South Korea
ARKANSAS	Europe, Far East	Europe, Japan
CALIFORNIA	Mexico, Canada Pacific Rim Countries, E.E.C., South America	Japan, E.E.C.
COLORADO	---NONE---	---NONE---
CONNECTICUT	Europe, South America, Asia	West Europe (Germany, Switzerland, England, Belgium, Netherlands), Scandinavia (Sweden, Denmark), Asia-Japan
DELAWARE	---NONE---	---NONE---
FLORIDA	Latin America, Europe, Far East	Canada, Europe, Japan
GEORGIA	---NONE---	Japan/Far East, Europe, Canada
HAWAII	Japan, Canada, Asia/Pacific	Japan, Canada
IDAHO	Latin America, Asia, Europe	---NONE---
ILLINOIS	E.E.C., Far East	---NONE---
INDIANA	South America, Europe, Far East	Europe, Japan
IOWA	---NONE---	Europe
KANSAS	South America, Far East, Europe	Europe
KENTUCKY	Europe, South America, Far East	Europe, Japan

TABLE III.9 (CONT)

	Export Promotion	Reverse Investment
LOUISIANA	(1)	(1)
MAINE	Europe, Canada, Far East	Europe, Canada, Far East
MARYLAND	Far East, West Europe	Far East/China, West Europe, Canada
MASSACHUSETTS	West Europe	West Europe, Japan, Canada
MICHIGAN	Latin America, Asia, Europe	Europe, Japan
MINNESOTA	Europe, Canada Latin America	---NONE---
MISSISSIPPI	Central America, South America	Germany, England, Canada
MISSOURI	West Europe, East and Southeast Asia, and Latin America	West Europe, East Asia, and Canada
MONTANA	Pacific Rim Countries, South America	---NONE---
NEBRASKA	---NONE---	---NONE---
NEVADA	---NONE---	---NONE---
NEW HAMPSHIRE	Europe (all countries), South America (Venezuela, Brazil, Argentina), Australia-Asia (Australia, New Zealand, Taiwan, South Korea, Japan, China)	Europe (England, France, Germany, Italy, Spain, Scandinavia), Canada, Australia, South Africa
NEW JERSEY	Latin America	West Europe, Japan
NEW MEXICO	Mexico	---NONE---
NEW YORK	(2)	North Europe, United Kingdom, Japan
NORTH CAROLINA	---NONE---	West Europe, Japan
NORTH DAKOTA	(1)	(1)
OHIO	Asia, Latin America, West Europe	West Europe, Japan
OKLAHOMA	Canada, Mexico West Germany	Canada, Mexico, West Germany, Japan

TABLE III.9 (CONT)

	Export Promotion	Reverse Investment
OREGON	Far East, Southeast Asia Western Latin America	Europe, Japan
PENNSYLVANIA	---NONE---	Japan, West Europe
RHODE ISLAND	E.E.C.	West Europe
SOUTH CAROLINA	(1)	(1)
SOUTH DAKOTA	---NONE---	---NONE---
TENNESSEE	Latin America, Asia, Europe	Japan, Germany, Other European Countries
TEXAS	Mexico	---NONE---
UTAH	---NONE---	---NONE---
VERMONT	(3)	Canada, Europe
VIRGINIA	Europe, Far East Latin America	West Europe, Japan
WASHINGTON	Asia-Pacific	Europe, Asia
WEST VIRGINIA	(1)	Japan, West Germany, England
WISCONSIN	South America, Far East	Europe, Far East
WYOMING	(4)	(4)

(1) Insufficient Data

(2) Target specific areas, but none listed

(3) No specific targeting, but have participated
in trade missions/shows in West Europe and
Latin America

(4) Left up to regional planning commission

include: Colorado, Delaware, Idaho, Illinois, Minnesota, Montana, Nebraska, Nevada, New Mexico, South Dakota, Texas, and Utah.

Europe and the Far East are, almost exclusively, the regions where states go to seek investment. A rank order of specific countries mentioned by number of states suggests what are regarded as the best sources of investment money. This pattern is illustrated in Table III.10.

TABLE III.10 - COUNTRIES TARGETED FOR STATE INVESTMENT
PROMOTION BY NUMBER OF TIMES MENTIONED ON QUESTIONNAIRE

Country	No. Of Times Mentioned
JAPAN	20
CANADA	11
GERMANY/WEST GERMANY	7
ENGLAND/UNITED KINGDOM	5
DENMARK	2
TAIWAN	2
AUSTRALIA	1
BELGIUM	1
FRANCE	1
ITALY	1
MEXICO	1
NETHERLANDS	1
SOUTH AFRICA	1
SOUTH KOREA	1
SPAIN	1
SWEDEN	1
SWITZERLAND	1

Six states targeted specific foreign areas for export promotion, but not for reverse investment. These states include: Idaho, Illinois, Minnesota, Montana, New Mexico, and Texas. In terms of general policy, all of these states strongly encourage export promotion and strongly discourage, mildly discourage, or at least are neutral toward, reverse

foreign investment. Six states also targeted specific foreign areas for reverse investment, but not for export promotion. These states include: Arizona, Georgia, Iowa, North Carolina, Pennsylvania, and Vermont.

Policy Implications and Recommendations

To speak of state trade policy is really only to refer to the collective activities that states perform in promoting international business. No state appears to have anything approximating an articulated policy relating to trade. A few states are so minimally involved in international trade it would be difficult to accurately identify a trade posture, much less a policy. Yet the idea of trade policy, and its development in the states, gives an instructive focus to the findings of this chapter.

From the collective activities of the typical state it is possible to derive the elements of a policy framework. Foreign investment and export promotion are both strongly encouraged. The longstanding interest of states in investment continues, although there is increasing interest in export promotion. The higher priority given exports is evident. Larger allocations of the state's international budget go for trade expansion. States offer a full range of export services in response to a whole range of needs within an expanding state trade network. It seems that states have generally rejected a strategy of making state exports more profitable. That approach would only serve one category of business within the state -- the experienced exporter. In providing a number of programs, the state reaches firms with no experience, those who might export but don't know how, those who want to but need assistance, and those who do export and want greater market opportunities. By sponsoring a variety of promotion programs, states assure that there is an appropriate program for most businesses in the expanding trade environment. This strategy is compatible with the finding that state programs are generally geared to small manufacturing firms with fewer than five years of experience in

see pg. 59 for foreign
office activities

5

State Trade-and- Investment Promotion

The most obvious manifestation of state-government involvement in international economic matters is the growth of state trade-and-investment promotion activities. These efforts have developed a structural dimension that demonstrates some of the organizational changes states experience in responding to international economic forces. While the national government encouraged initial state involvement in international promotional activities, this intergovernmental relationship has recently exhibited some competitive as well as cooperative aspects in both programmatic and policy terms.

State-government promotional efforts affect U.S. policy outcomes primarily through indirect means at the program-implementation level. Trade activities generally support the achievement of national export-expansion goals while state investment promotion can conflict with national policy regarding the use of public incentives. The growth of state promotional programs thus offers evidence of the overlapping government interests created by international-interdependence trends and resultant state influence on U.S. policy outcomes.

The State Economic Interest

The growth of state promotional activities, including their interface with national programs, can be understood only within the context of their importance to state economic interests. Chapter 3 detailed some of the broad impact of interdependence at the state level, but a clearer picture emerges when one considers the role international-market factors can play in a state's economic-development strategy.

A growing export sector, for example, can provide a dynamic base for the expansion of production and employment within a state. In case after case during the 1970s, states reported growth in production for exports running two or three times higher than general manufacturing production. Benefits to a state's economy from increased exports, especially when indirect and other "multiplier" effects are considered, can also go far beyond immediate production jobs into areas such as transportation, finance, insurance, and greater state tax revenues.

The particular experience of several states might help to illustrate both the economic importance and the organizational support now given to international trade as a central facet of a state's economy. Illinois became involved in

actively promoting exports in 1967, utilizing the Illinois Department of Business and Economic Development in which an International Marketing Department was established. By 1976 over 346,000 workers in Illinois were employed full time in manufacturing exports, which is 20 percent of the state's total work force earning all or part of their income from export activities. Exports jumped from 4.3 percent of the gross state product in 1972 to 10.2 percent in 1974. The following year, the state exported \$6.8 billion in manufactured goods, \$2.2 billion of agricultural products, and in the process collected \$680 million in taxes from this export production.

In the Chicago area, manufacturing employment declined from the mid-1960s to the mid-1970s, but jobs attributable to manufacturing exports almost doubled during this decline. The Chicago Association of Commerce and Industry estimated that the city's export growth had added 60,000 jobs in the area over this ten-year period. More dollar shipments of manufactured goods were sent out of Chicago than any other statistical metropolitan area.¹

Florida is another state that consciously set out to tie its economic fortunes into the foreign-trade sector. The oil-price shocks in the early 1970s nearly decimated the tourism and construction industries that formed the backbone of Florida's economy. In response Florida conceived a strategy of aggressively promoting foreign trade, especially focusing on its port activities, which by 1978, had paid off handsomely. Exports from the Tampa and Miami areas alone generated \$4 billion annually in revenue and involved over 167,000 people. Statewide the export trade accounted for 8 percent of total personal income, double the proportion for the 1960s. State initiatives in terms of trade missions, information, establishment of foreign-trade zones, authorization of foreign-bank activity, and others helped link the state more securely into expanding world markets.²

While exports have provided a beneficial area for state business development, the importance of this role goes beyond its utility as a timely area of economic growth, as useful as that may be. Many other purely domestic sectors have also provided spurts of economic activity at different times. The export area, however, offers some additional benefits in terms of the countercyclical potential of foreign-market sales.

Countercyclical benefits of foreign trade stem from the normally different economic growth rates prevailing in various parts of the world at any given time. While there are occasions when the worst-case scenario of global recession sets in, it seldom occurs simultaneously, and the more normal pattern has been for some countries to be gearing up their economies while others are sliding into slower-growth periods. Exports can help stabilize U.S. employment if demand from abroad counters declining U.S. sales, while later U.S. economic recovery then could cushion a falloff in overseas economic activity.

The practical utility of ties to broader world markets became apparent in business experiences during the 1974-1975 U.S. recession. At a series of public

hearings around the country sponsored by the U.S. Commerce Department in 1976, numerous witnesses testified to the production and employment impact of export sales during the recession. Typical of the stories were these:

More than 6,000 employees (out of 31,000 total) at Dow Chemical Corporation were engaged in \$650 million of export business in 1975. Exports provided enough of a cushion during the recession that only 100 employees were laid off even though production volume declined 20 percent.³

Emerson Electric Company of St. Louis, Missouri concentrated on domestic growth until 1970, when international market development became a corporate objective. By the 1974-1975 recession, Emerson's international business was growing by 22 percent while domestic business declined by 5 percent, counterbalancing by some 900 jobs the employment loss brought on by the recession.⁴

The Executive Director of the Texas Industrial Commission (which includes the state's International Trade Division) testified that the state was one of the least affected during the recession due to involvement in the export sector. Information from major Texas companies showed that expansion of international sales had allowed them to maintain or even add to their labor forces during the recession.⁵

This last testimony pinpoints the direct interest of state governments in the countercyclical benefits of foreign trade—keeping people employed (and paying taxes rather than drawing state unemployment-compensation benefits). An international-trade base is best built, of course, during relatively good economic periods when time and resources are available to develop the strong export position needed to help counteract later cyclical downturns. Studies by the Indiana Department of Commerce showed a large number of small- to medium-sized companies interested in exporting that needed assistance to enter overseas markets. The state reportedly concluded that export-promotion efforts also offered the best avenue for increasing and diversifying the state's economic base in the face of declines in the domestic durable-goods market. As a result, a private nonprofit corporation, Indiana Export, Inc. (IEI), was created to provide specialized counseling to firms on how to expand into export operations. It is estimated that up to 20,000 jobs may be created over the next five years as a result of expected increases in export sales.⁶

International-trade ties thus help provide a better, broader "cushion" against hard times than business plans limited to intra- or even interstate economic expansion. Along with the positive benefits of normal industrial expansion from increased exports, this countercyclical potential helps provide an additional rationale for an active state-government role in trade promotion.

Structuring State Promotional Activities

From rather modest beginnings, state promotional activities have expanded tremendously over the last decade. This section discusses the nature, growth, and current dimensions of these programs, using both aggregate measures and specific state examples. It should be noted, however, that the rapid changes occurring in this area quickly overtake specific, snapshot examples, which are therefore employed for illustrative purposes only. Descriptions of individual state programs and statistics would need to be updated almost continuously to retain their complete accuracy.

While foreign-trade promotion can be seen as an extension of traditional state business-development programs, the actual methods employed demonstrate a mix of both normal and rather unconventional state services. Programs include trade missions, information and training seminars, trade shows at home and abroad, export directories and newsletters, computerized distribution of trade leads, and other such aids, administered through international business departments and often with the assistance of overseas state offices.⁷

The organizational pattern for administration of state trade-promotion activities reflects the diversity one might expect given the fifty states' historical, geographic, economic, and policy priority differences. While most efforts seem to be coordinated out of international divisions within a state's commerce department, a significant and sometimes lead role is played in other states by the agriculture department. Other forms of public and sometimes private bodies can also serve as central directing, coordinating, and/or advisory devices. Linking mechanisms within a state are essential since many "partners" are often required to formulate an effective trade-promotion program, including port authorities, tourism agencies, foreign-trade-zone authorities, transportation and economic development departments, chambers of commerce, world-trade councils, and local governments. (For a more complete discussion including examples of several state organizational structures, see the 1981 NGA report on *Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action*.)⁸

State expenditures on trade promotion have become very substantial in dollar amounts as well as in the establishment of specialized program mechanisms and state executive-time commitment. As shown in table S-1, the states in 1980 reported spending \$18,855,550 on export-promotion activities. Utah was the sole state with no direct expenditures, while nearly two-thirds of the states allocated \$100,000 or more to export promotion and four states (Ohio, Illinois, Virginia, and Maryland) spent over \$1 million.

The allocation of state personnel to international business activities shows a similar impressive commitment. While the numbers include individuals working on investment promotion as well as trade activities, some

Table S-1
State Expenditures on International Business Promotion

	Total International Business Expenditure	Export Promotion	Reverse- Investment Promotion	Other
Alabama	375,000	273,750	101,250	—
Alaska	745,000	372,500	372,500	—
Arizona	134,000	107,200	26,800	—
Arkansas	350,000	175,000	175,000	—
California	403,835	234,224	121,151	48,460
Colorado	132,000	120,120	11,880	—
Connecticut	250,000	75,000	150,000	25,000
Delaware	100,000	30,000	70,000	—
Florida	684,000	458,280	225,720	—
Georgia	795,000	310,050	484,950	—
Hawaii	195,000	107,250	27,300	60,450
Idaho	50,000	47,500	2,500	—
Illinois	1,642,000	1,527,060	114,940	—
Indiana	929,541	752,042	158,022	46,477
Iowa	358,616	240,273	118,343	—
Kansas	100,000	70,000	30,000	—
Kentucky	994,500	576,810	417,690	—
Louisiana	250,000	25,000	225,000	—
Maine	174,000	90,740	22,685	61,075
Maryland	1,580,491	1,287,319	693,172	—
Massachusetts	450,000	45,000	405,000	—
Michigan	1,100,000	652,000	418,000	—
Minnesota	200,000	188,000	12,000	—
Mississippi	300,000	150,000	120,000	30,000
Missouri	900,000	729,000	153,000	18,000
Montana	298,529	277,632	20,897	—
Nebraska	197,688	195,711	1,977	—
Nevada	5,000	5,000	—	—
New Hampshire	50,000	20,000	30,000	—
New Jersey	450,000	315,000	135,000	—
New Mexico	90,000	70,000	—	20,000
New York	1,300,000	845,000	455,000	—
North Carolina	950,000	503,500	446,500	—
North Dakota	102,000	99,960	2,040	—
Ohio	2,320,000	1,832,800	487,200	—
Oklahoma	334,600	247,604	80,301	6,692
Oregon	393,225	361,767	15,729	15,729
Pennsylvania	478,700	263,285	215,415	—
Rhode Island	45,000	11,250	33,750	—
South Carolina	500,000	100,000	400,000	—
South Dakota	145,000	139,200	5,800	—
Tennessee	440,100	193,644	290,466	—
Texas	795,477	739,794	47,729	7,955
Utah	0	0	0	0
Vermont	52,500	6,825	45,675	—
Virginia	2,564,115	1,487,187	1,076,928	—
Washington	370,000	333,000	7,400	29,600

Table 5-1 continued

	Total International Business Expenditure	Export Promotion	Reverse- Investment Promotion	Other
West Virginia	71,545	35,773	17,886	17,886
Wisconsin	110,000	82,500	27,500	—
Wyoming	15,000	15,000	—	—
* Totals	25,671,932	18,855,550	8,500,099	387,324

Source: Adapted from *Export Development and Foreign Investment: The Role of the State and its Linkage to Federal Action* (Washington, D.C.: National Governors' Association, 1981).

50 personnel were engaged in state international business activities in 1980. Only two states devoted less than a full-time position to these tasks while the average state designated eleven individuals to this function and Virginia topped the list with fifty-nine employees. While fully comparable data is not available from all states for preceding years, reported figures for at least one-half the states demonstrate a clear expansion in both personnel and budget expenditures from 1976 to 1980. New Mexico was the only state in twenty-four to show a decrease, while the average state quadrupled its expenditures and at least doubled its personnel commitment.⁹

Few states provide direct financial incentives for exports (in contrast to investment promotion, as will be discussed). New York offers an export tax incentive, Michigan subsidizes booth space in state-sponsored trade shows, and several states provide free product advertising through overseas export catalogs or other promotional devices. A few states are now exploring various export-financing aids. The recent NGA study speculates that this interest in state export incentives may expand in the future,¹⁰ and indeed there is increasing evidence of such a development.

The primary objectives of state trade-promotion programs are to introduce new firms to the export market and to expand the overseas sales of companies already exporting, essentially matching up in-state firms with overseas buyers for their products. To this end the states employ trade missions, trade shows, overseas offices, catalogs and advertising, computerized information systems, how-to export seminars and virtually any other nonfinancial device used at the national level or elsewhere. Through coordination and referral with national-government agencies, the states can also link their clients up with other services, including such aids as the Export-Import Bank or now, the new Foreign Commercial Service.

While state programs are usually designed to handle a broad range of companies and products, in reality they are targeted more at medium- to smaller-sized companies, especially new-to-export firms that lack the experi-

ence and resources of major U.S. multinational corporations. In a survey response concerning their export-promotion programs, state agencies reported that nearly two-thirds of their export services are used by small businesses, over 30 percent by medium-sized firms and only 5 percent by large companies. The same essential distribution was maintained when services were apportioned by the length of a firm's experience in export markets, although a few states, most notably Alaska, seemingly focused on larger, experienced firms. Probably as a result of this relative inexperience in their usual clients, state export-promotion agencies also appear to target well-established markets abroad (Europe, Asia, and Latin America over Africa, West Asia, or Eastern Europe).¹¹

These major export markets are also the logical site for overseas state offices—one of the most evident structural symbols of direct state involvement in the international marketplace. Trade missions abroad, often led by the governor or other top officials, have long been a useful device to open doors and facilitate trade contacts for local companies with potential foreign buyers. A permanent state presence abroad, however, is more novel.

The specific country location of state offices has tended to undergo periodic changes as experience is gained or shifts occur in functional objectives between export marketing and investment attraction. Change also occurs in the use of foreign-consultant representatives versus a full office structure, or the chosen configuration of individual state, regional, or port-authority sponsorship. A fully accurate picture of office locations would therefore require frequent updating, as would other elements of a state's promotional activity. A view of recent comparative growth was offered, however, by the NGA survey report released in 1981.

While about twenty states maintained overseas offices at the time of the 1977 Council of State Governments' study, the NGA data in table 5-2 shows that by October 1980 thirty-three states were represented by sixty-six offices, including some organized on a regional basis or through port authorities. While established European and Japanese markets were the initial locales for these offices, seventeen countries are now reported to host state representatives, including Mexico, Brazil, Panama, Colombia, Australia, Hong Kong, and Singapore.

Developments since the NGA survey have witnessed the opening of additional state offices in several countries, including Mexico and Canada, as well as a new venture in Korea. At the same time there has been a decrease in regionally funded representation efforts, partly due to a loss of financial support and partly to competitive allocation difficulties. Financing has been a particularly uncertain aspect of these state programs since the existence of an overseas office costing several hundred thousand dollars annually to operate can face funding difficulties in budget-conscious state legislatures.

For example, an office in Brussels, Belgium, operated by the Pennsylvania Commerce Department's Bureau of International Commerce (PENBIC) was

Table S-2
State Offices Abroad

	Belgium	Denmark	Fed. Rep. of Germany	France	Great Britain	Greece	Netherlands	Switzerland	Brazil	Colombia	Mexico	Panama	Australia	Hong Kong	Japan	Singapore	Canada
Alabama					X		X										
Alaska		X	X														
Arkansas	X																
Connecticut			X														
Delaware	•													•	•		
Florida			X												X		
Georgia	X		•			•									X		
Idaho															•		
Illinois	X							X						X			
Indiana							X		X								
Iowa			X														
Kentucky	X																
Louisiana	X		X	X							X	X	X	X			
Maryland	X				X								X	X			
Massachusetts	X													X			
Michigan	X													X			
Missouri			X													X	
Montana			••												••		
Nebraska			••												••		
New Jersey	•				•										•		
New York					X										X		
North Carolina			X												X		
North Dakota			••												••		
Ohio	X														X		
Oregon															••		
Pennsylvania			•••												•••		
South Carolina	X														X		
South Dakota			••												••		
Texas										X							
Vermont																	X
Virginia	X							X							X		
Washington															X	X	
Wyoming			••												••		

Source: Adapted from *Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action* (Washington, D.C.: National Governors' Association, 1981).

- X = one or more state offices.
- = Regional Ports Authority offices.
- = Regional Planning Commission offices.
- = Private state group offices.

closed in 1977 after the Pennsylvania General Assembly passed a general-appropriations act prohibiting the expenditure of money for offices outside the state. Two years later the Pennsylvania Secretary of Commerce was back

before the General Assembly's Appropriations Committees arguing for a state office in Europe to boost the state's economy and create more jobs.¹² The NGA report shows the state as operating through private offices abroad at the time of its survey, but by 1981 Pennsylvania offices were being established in multiple European locations, Japan, and later in Mexico.

Other states have been more successful in sustaining support for their foreign operations. The Illinois Department of Business and Economic Development operates three foreign offices (Brussels, Belgium; Hong Kong; and Sao Paulo, Brazil) to help Illinois manufacturers sell their goods overseas. This activity received bipartisan support from four governors and the state legislature¹³ largely because the department has paid close attention to illustrating the practical benefits of such offices. A report, "On Selling Illinois South of the Border," noted that since the Sao Paulo office was established in May 1976, some 1,000 Illinois businesses had received assistance while firms participating in the department's trade shows had nearly \$20 million in estimated first-year sales.¹⁴

Other overseas-office programs claim similar cost-benefit successes. The director of Ohio's International Trade Division estimated that one dollar of expenditures generated approximately \$260 in export sales for the state's companies. New York state's representative in Tokyo reported about \$10 million worth of export business attributable to the office's operation there.¹⁵

Michigan's Office of Economic Expansion founded an International Division in 1972, which now maintains offices in Tokyo and Brussels. These offices offer the Exporter's Travel Assistance Program (EX-TAP), which helps arrange appointments, make reservations and, at times, accompany visiting state businessmen on their calls to potential foreign distributors.¹⁶ Donald Hufford, President of Hufford Industries, Inc., a \$2-million company located in Charlevoix, Michigan, was reportedly one of the beneficiaries of such state assistance. He told of answering a state export advertiser in a local newspaper. The state office set up a trip for him to Europe, provided translators and screened possible distributors. Hufford Industries began exporting to Britain, West Germany, the Netherlands, and France and projects that one-half of its market may lie overseas.¹⁷

As is evident from table S-3, an overseas office is only one part of state export-promotion programs (and may actually be more useful for investment promotion, as will be discussed). For example, a number of states have developed computerized hookups that allow them access to general trade leads or even the capability to conduct searches tailored to the needs of specific state firms. New Jersey's International Trade Office, which utilizes a computerized information-matching system, also publishes an international trade directory listing all New Jersey firms engaging in international trade and sponsors workshops for small businesses seeking to break into the export market. The trade-promotion program in Illinois includes state subsidized

Table 5-3
State International Business Programs and Activities

	Trade Missions	Trade Shows	Marketing Assistance	Market Development	Export Education	Investment Information	Investment Missions	Advertising	International Tourism	Port Development	Total Number of Programs or Activities
Alabama	X		X	X	X	X	X	X		X	8
Alaska	X	X	X	X	X		X	X		X	8
Arizona	X	X	X	X	X	X			X		7
Arkansas	X	X	X	X	X	X	X	X		X	9
California	X	X	X	X	X	X	X	X			8
Colorado		X	X	X	X	X		X			6
Connecticut	X	X	X	X	X	X	X				7
Delaware	X	X	X	X	X	X	X	X	X	X	10
Florida	X	X	X	X	X	X	X	X	X		9
Georgia	X	X	X	X	X	X	X	X	X	X	10
Hawaii	X	X	X	X	X	X	X	X	X		9
Idaho	X	X	X	X	X		X	X			6
Illinois	X	X	X	X	X	X	X	X	X	X	10
Indiana	X	X	X	X	X	X	X	X	X	X	10
Iowa	X	X	X	X	X	X	X	X			8
Kansas	X	X	X	X	X	X	X	X			8
Kentucky	X	X	X	X	X	X	X	X	X	X	10
Louisiana	X	X	X	X	X	X	X	X			8
Maine	X	X	X	X	X	X	X	X	X	X	10
Maryland	X	X	X	X	X	X	X	X	X	X	10
Massachusetts	X	X	X	X	X	X	X	X	X	X	10
Michigan	X	X	X	X	X	X	X	X			8
Minnesota	X	X	X	X	X	X	X	X			7
Mississippi	X	X	X	X	X	X	X	X	X	X	9
Missouri	X	X	X	X	X	X	X	X	X	X	10
Montana	X	X	X	X	X	X	X	X	X	X	10
Nebraska	X	X	X	X	X	X		X			7
Nevada			X								1
New Hampshire			X	X	X	X					5
New Jersey	X	X	X	X	X	X	X	X	X		9
New Mexico	X	X	X	X	X	X			X		7
New York	X	X	X	X	X	X	X	X	X		9
North Carolina	X	X	X		X	X	X	X	X	X	9
North Dakota	X	X	X								3
Ohio	X	X	X	X	X	X	X	X	X	X	10
Oklahoma	X	X	X	X	X	X	X	X	X	X	10
Oregon	X	X	X	X	X	X	X	X			7
Pennsylvania	X	X	X	X	X	X	X	X	X	X	10
Rhode Island	X	X	X	X	X	X	X	X	X	X	8
South Carolina	X	X			X	X	X				5
South Dakota	X	X	X	X	X	X		X			7
Tennessee	X	X	X	X	X	X	X				8
Texas	X	X	X	X	X	X	X				7
Utah			X	X	X			X			5
Vermont	X	X	X	X	X	X					6
Virginia	X	X	X	X	X	X	X	X	X	X	10
Washington	X	X	X	X	X	X		X	X	X	9

Table 5-3 continued

	Trade Missions	Trade Shows	Marketing Assistance	Market Development	Export Education	Investment Information	Investment Missions	Advertising	International Tourism	Port Development	Total Number of Programs or Activities
West Virginia	X		X		X	X	X	X			6
Wisconsin	X	X	X	X	X	X					6
Wyoming	X	X									2
Totals	46	45	48	41	46	44	35	35	25	22	Mean = 7.74

Source: *Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action* (Washington, D.C.: National Governors' Association, 1981).

trade fairs, trade missions, and catalog shows, with companies charged fees ranging from \$400 to \$1,500 per firm for these services that the state claimed increases the average company's export sales by \$25,000.¹⁸

These examples are simply a few of the many active but diverse trade-promotion efforts being conducted by state governments and related instrumentalities. While legislated-funding authorizations have often been difficult to secure, the growing importance of international trade to the U.S. economy and the demonstrated success of some sister states in generating increased trade benefits have brought more and more states into active promotional programs.

The same basic promotional pattern has been followed in the area of foreign-investment programs. Just as the states started to gear up their trade activities in the early 1970s, the United States began to experience significant inflows of foreign direct investment, which added a new dimension to domestic economic-development activities. In a GAO survey, only ten states were found to have committed budgetary resources to attracting foreign investment before 1969. Twenty-one states began active promotional efforts between 1969-1975 as these reverse-investment flows picked up, while fourteen more began in the 1975-1978 period. By the time of the 1979 survey, only three states reported no active program to encourage foreign investment.¹⁹

Early state experience with investment promotion stemmed from overseas missions led by state governors. During 1977-1978 states reported sponsoring 113 missions abroad to promote foreign investment, as well as participating in nearly thirty additional missions sponsored by the U.S. government and other organizations. Many overseas state offices discussed earlier were actually established largely for investment-promotion purposes to follow up on the initial success of a governor's trip.

Even more than with trade flows, direct investment activities almost by definition require significant state-government involvement. Charters, siting,



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

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

January 17, 1984

MEMORANDUM

TO: Representative Joe Hayes
Attn: Jeff Day

FROM: Jonathan Sherwood *JS*
Legislative Analyst

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

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

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

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

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

THE STATE OF ALASKA'S ASIAN OFFICE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Representative Hayes

January 17, 1984

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

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

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

OTHER STATES' TRADE OFFICES

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

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

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

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

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

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

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

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

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

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

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

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

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

⁴This compares with 14 states in 1980.

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

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

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

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

HISTORY OF ALASKA-KOREAN TRADE

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

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

Overview

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

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

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

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

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

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

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

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

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

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

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

Timber

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

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

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

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

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

Minerals

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

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

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

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

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

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

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

Agriculture

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

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

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

Korean Investment in Alaska

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

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

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

Imports

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

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

Trade Promotion Activities

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

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

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

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

Potential for Future Trade

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

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

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

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

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

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

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

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

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

JS

Attachments

cc w/attachments: Michael Gay

ATTACHMENT E

Alaska Exports to East Asian Markets

ALASKA EXPORTS: EAST ASIA AND PACIFIC
Totals and Major Products (000)

COUNTRY (PRODUCT)	1977	1978	1979	1980	1981	1982 (H)
<u>JAPAN</u>	<u>288,164.0</u>	<u>471,161.5</u>	<u>738,445.7</u>	<u>757,959.4</u>	<u>934,205.7</u>	<u>887,967</u>
Seafood	47,623.7	203,479.6	396,895.2	297,494.2	406,279.6	332,491
Forest Products	141,096.1	135,410.5	236,306.5	273,337.1	206,214.7	205,081
Pet & Pet/Chem*	95,325.6	121,448.4	131,649.3	222,547.4	297,350.7	281,947
<u>CHINA</u>	<u>7,196.2</u>	<u>18,711.4</u>	<u>32,352.5</u>	<u>67,795.1</u>	<u>43,841.7</u>	<u>58,665</u>
Urea	6,938.6	15,174.6	27,179.2	35,036.6	18,953.6	43,860
Forest Products	0.0	3,393.2	1,303.6	32,173.3	24,412.5	9,562
<u>TAIWAN</u>	<u>8,573.6</u>	<u>8,090.6</u>	<u>12,096.4</u>	<u>14,600.6</u>	<u>16,916.0</u>	<u>4,374</u>
Urea	0.0	0.0	2.4	0.0	4,109.7	0
Forest Products	7,349.2	5,614.2	9,479.0	9,201.5	7,036.6	3,658
Seafood	0.0	0.0	0.0	9.6	0.0	0
<u>KOREA</u>	<u>8,302.5</u>	<u>8,653.5</u>	<u>23,578.6</u>	<u>36,121.0</u>	<u>19,807.4</u>	<u>95,185</u>
Urea	0.0	0.0	0.0	0.0	0.0	16,612
Coal	0.0	0.0	0.0	0.0	635.7	0
Forest Products	5,314.0	2,420.3	12,773.9	8,030.8	9,430.0	9,469
Seafood	0.0	3,453.5	1,446.0	24,345.0	4,088.4	9,345
<u>THAILAND</u>	<u>3,821.3</u>	<u>4,306.8</u>	<u>3,468.4</u>	<u>5,539.4</u>	<u>4,099.8</u>	<u>9,331</u>
Urea	0.0	994.6	800.9	4,283.9	0.0	2,884
Forest Products	4,219.3	2,662.8	2,568.9	1,069.7	2,347.6	5,995
<u>HONG KONG</u>	<u>309.1</u>	<u>1,303.9</u>	<u>2,963.3</u>	<u>1,859.3</u>	<u>5,611.5</u>	<u>917</u>
Pet & Pet/Chem	0.0	0.0	1.2	0.0	.7	0
Forest Products	402.2	0.0	0.0	0.0	982.2	0
Seafood	0.0	0.0	82.6	1.5	0.0	0
<u>INDONESIA</u>	<u>0.0</u>	<u>1,102.4</u>	<u>1,188.4</u>	<u>10,942.4</u>	<u>2,969.5</u>	<u>22,199</u>
Urea	0.0	0.0	0.0	0.0	0.0	15,552
Forest Products	0.0	0.0	0.0	0.0	545.7	5,247
<u>PHILLIPINES</u>	<u>22.0</u>	<u>367.2</u>	<u>3,270.6</u>	<u>14,598.3</u>	<u>28,326.4</u>	<u>12,551</u>
Urea	0.0	0.0	2,217.9	14,442.4	26,362.6	12,256
<u>MALAYSIA</u>	<u>0.0</u>	<u>166.2</u>	<u>4,859.9</u>	<u>4,901.2</u>	<u>10,627.2</u>	<u>14,038</u>
Urea	0.0	0.0	2,219.0	3,579.6	6,408.4	11,898
<u>AUSTRALIA</u>	<u>1,173.4</u>	<u>6,965.9</u>	<u>18,318.6</u>	<u>3,069.0</u>	<u>9,096.0</u>	<u>33,576</u>
Urea	0.0	0.0	3,742.6	0.0	0.0	8,025
<u>NEW ZEALAND</u>	<u>0.0</u>	<u>2.0</u>	<u>27.1</u>	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>
TOTAL EXPORTS	392,157.3	611,825.7	913,047.4	987,519.0	1,182,597.2	1,190,536.7

*Pet & Pet/Chem exports to Japan and other countries are included in the totals.
†1982 figures are preliminary.

ALASKA EXPORTS: WORLDWIDE TOTALS

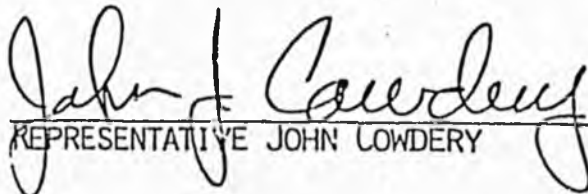
Major Products (000)

Product	1977	1978	1979	1980	1981	1982 (NOV)
Forest Products	179,212.5	168,484.4	271,135.9	339,037.1	278,026.5	252,815.0
Seafood Products	52,106.3	205,707.1	356,047.6	327,205.3	427,142.8	349,391.0
Natural Gas	95,325.6	111,442.0	122,536.0	218,044.4	310,024.5	266,148.0
Urea	20,059.1	59,837.6	73,719.5	87,481.3	133,417.2	100,734.7
Ammonia	6,517.5	9,433.5	913.8	2,648.7	0.0	19,371.2
<u>TOTAL</u>	<u>392,157.3</u>	<u>611,825.7</u>	<u>913,047.4</u>	<u>987,519.0</u>	<u>1,182,597.2</u>	<u>1,199,356.7</u>

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


SENATOR BETTYE FAHRENKAMP


REPRESENTATIVE ROBERT BETTISWORTH


REPRESENTATIVE JOHN LOWDERY

JANUARY 24, 1984

REPORT OF LEGISLATIVE MISSION TO JAPAN AND KOREA

I. Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. Recommendations.

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

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

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

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

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

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

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

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

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

III. Discussion of Trip Details

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

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

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

1. The mission was returning the August 1983 visit of the Diet with the idea of continuing such exchanges in the future;
2. The mission felt it was in the interest of both Japan and Alaska to work to implement that portion of the November 1983 communique from the meeting of President Reagan and Prime Minister Nakasone which named Alaska as the focal point for an energy relationship between Japan and United States;
3. The mission recognized that realizing Alaska's position as the focal point of an energy relationship will take time and commitment, which Alaska for its part was willing to pursue;
4. The mission endorsed the efforts of the Congressional delegation to change that portion of the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. Conclusion.

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

ATTACHMENT I

Forbes, November 7, 1983--"Northwest Passage"

Asia covets Alaskan fish, timber, coal and, especially, oil, and the state's little-known Native corporations are finding new trading partners.

Northwest passage

By Allan Dodds Frank

WHEN THE residential housing market slumps in Tokyo, it hurts Alaska Natives in Juneau and Sitka. When South Koreans get depressed, aphrodisiac prices there decline and Eskimos in Kotzebue lose

profits. What's going on is that the Natives of Alaska, the Eskimos, Indians and Aleuts, are establishing business empires increasingly tied to the fortunes of the Pacific Rim. Japan and South Korea provide major markets for timber, fish, minerals and, yes, even reindeer horn, which old-fash-



Cook Inlet Region, Inc. President Roy Hulmbuf at headquarters in Anchorage: Alaskan coal to Japan?

ioned apothecaries in Seoul finely grind into much-savored sea potions.

Being in the export business is just one offshoot of the 1971 settlement, enacted by Congress, of the land claims of Alaska's 80,000 Eskimos, Indians and Aleuts. The Natives were granted 44 million acres, a land area equal to 2% of the entire U.S. To help them enter the capitalist mainstream, \$962.5 million was thrown into the pot (FORBES, *Oct. 24*) to establish 203 village and 12 giant regional corporations. These are to administer the land and begin profitmaking ventures. Each Native received 100 shares in a regional corporation. To prevent takeovers by outsiders, Congress prohibited any stock sale until 1991.

"Until I became a Native American businessman, I always thought a strong American dollar was a good thing," says Roger Lang, a Tsimshian Indian who fishes commercially for salmon and halibut when not attending to his duties as a director of Scalaska Corp., a company with estimated timber assets in hemlock, spruce and cedar worth more than \$200 million. He now knows a weak yen means weak sales. Lang adds that Canada, which he accuses of dumping logs, has hurt Scalaska timber sales to Japan, which last year were nearly 190 million board feet, mostly in round logs.

Overall the 12 Alaska Native corporations' profits have been improving (*see table, p. 222*), but the big move forward will occur when world prices for oil, timber and fish improve. Until then the corporations will work on honing skills in scouting out new joint ventures. Several Native corporations have opened branches in Tokyo and Seoul, and more will follow. Alaska is midway between Tokyo and New York by air, and by water it's far easier to ship bulk commodities to the Pacific Rim than to the U.S. East Coast. Raw salmon is a big seller in the Orient, so several Native corporations, like Calista Corp. in southwest Alaska and Nana Regional Corp. in Kotzebue, have negotiated wholesale deals to sell fish caught by Natives to Japan.

For Nana, the South Korean market for reindeer horn is the margin that makes it possible to maintain a herd of 6,000 animals that also provides fresh meat for local Eskimos, all of whom are stockholders. The herd still loses money, which makes it a tax-loss carryforward on the hoof, but the slaughterhouse also is used in summer to process fish. Besides, Nana stockholders are constantly entertained by management's amusing efforts at rounding up the reindeer. Using tax-deductible toys—helicopters,

metal, three-wheeled vehicles and dog teams—they try to separate the reindeer from thundering herds of wild caribou. (They look alike and are compatible.) Nana also mines decorative quality jade that it sells to Taiwan for carving into clocks, ashtrays and little animals, even reindeer.

"In Japan they understand the Alaska market much better than anyone else," says Alex Raider, Calista Corp. president. Raider has enticed several major Japanese corporations, including Mitsui Engineering & Shipbuilding, Ltd. and Kawasho International Corp., into joint ventures to supply engineering expertise and steel for building offshore oil rigs in the Bering and Chukchi seas. It's not just the Asians who are doing business with the Native corporations. Remember, the dozen corporations control 44 million acres of the state and deal with the major U.S. oil companies, handling service and construction contracts. Natives and oilmen lobby together against environmentalists for sale of Alaska oil to Japan.

In the main, the Native corporations have staked their future on resource development, with nearly every corporation involved in joint ventures with oil companies.



Roger Izng, a Tsimshian Indian who is a Sealaska director. Learning that a strong dollar doesn't always help.

The most profitable Native corporation, Cook Inlet Region, Inc., is seeking a blend of Pacific Rim and domestic markets that other Native corporations are trying to duplicate. Cook Inlet President Roy Huhndorf says improvement of coal prices could make it economically feasible to ship to Japan from the corporation's massive Beluga coalfield near Anchorage, to be operat-

ed under lease by Placet Amex Inc. In the meantime, with proved oil and gas reserves, Cook Inlet "is going to stick to joint ventures with expert operators like Arco and Texaco," says Huhndorf.

The Native corporations always look for ventures that will employ shareholders, a notion that produces company ties akin to the Japanese cradle-to-grave employment approach. The Native leaders strive to create shareholder loyalty—William L. Hensley, president of Nana Development Corp., a Nana subsidiary, calls it "Sivuniigvik," spirit in Eskimo—to work against the temptation to sell out when 1991 comes around.

The Native corporations, however, have lost a friend with the resignation of James Watt, the Interior Secretary. Watt had pushed hard to unlock their lands for exploration and to get their land titles to them. He put federal lawyers to work on projects to make the Natives self-sufficient, even if it meant fighting The Sierra Club, which it has. As he told FORBES before his resignation, "The no-growth advocates who try to destroy the success of these corporations shouldn't be tolerated."

But then Watt believed in self-reliance for the Natives, not handouts. ■

On native ground

These 12 corporations, established by Congress, control most subsurface and surface rights to 44 million acres of Alaska and were given \$962.5 million to set up

businesses and manage the assets to make Alaskan Natives self-supporting. They can't sell their stock until 1991. Here's a situation report.

Corporation	Reporting year	Stockholders	Acres (millions)	Settlement money	Equity	Long term debt (in thousands)	Current assets	Current liabilities	Earnings per share	Equity per share
Ahtna Inc	1983	1,074	1.8	\$15,085	\$17,755	\$ 877	\$12,304	\$1,354	\$ 2.69	\$17.34
Aleut Corp	1982	3,249	1.5	19,504	15,839	2,110	8,346	1,208	1.53	48.75
Arctic Slope Regional Corp	1982	3,738	5.2	22,535	20,002	16,299	15,684	14,938	(18.38)	50.84
Bering Straits Native Corp	1981-82	7,425	2.2	51,225	8,360	24,391	5,640	3,404	(5.01)	13.20
Bristol Bay Native Corp	1983	5,401	3.2	32,695	37,194	14,527	7,980	3,761	5.88	62.87
Calista Corp	1982	13,306	6.5	80,133	54,716	23,865	21,571	3,600	1.18	41.12
Chugach Natives Inc	1982	1,908	1.0	11,454	6,049	906	8,828	9,710	(4.62)	31.64
Cook Inlet Region Inc	1982	6,264	2.4	43,026	75,880	9,685	65,209	26,677	24.98	121.14
Doyon Ltd	1982	9,491	12.2	53,609	57,991	3,374	11,602	19,144	0.74	64.00
Koniag Inc (9 mos ending 3/31/82)		3,432	1.1	26,904	15,043	2,886	8,696	8,315	(3.33)	33.35
Nana Regional Corp Inc	1982	4,828	2.3	43,583	44,669	2,751	20,594	20,184	1.80	60.85
Sealaska Corp	1982	15,787	0.6	203,948	176,000	36,889	100,756	101,828	(17.72)	111.41

Source: Native corporations' annual reports.

ATTACHMENT H

Markets for Alaska Timber--Pacific Rim Countries

Development Planning and Research Associates, Inc.,
200 Research Drive, Manhattan, Kansas 66502
with
The Tuolumne Corporation
and
International Investments Consultants, Inc.

MARKETS FOR ALASKAN
TIMBER PRODUCTS
PACIFIC RIM COUNTRIES

To

Forest Service, Region 10
U.S. Department of Agriculture

P-509
May 1983

B. The Market for Alaskan Timber Products in Korea

Korea is a country of few forest resources but a sizeable wood products industry that relies heavily on the export market. It exports large volumes of plywood worldwide and some lumber to Japan and the Middle East where Korean contractors are very active.

1. Market Structure for Alaskan Timber

Our investigation of the Korean market showed that only four firms import from southeast Alaska and one of these, a red cedar importer, was beyond the scope of the study. Each of the three applicable users is an integrated importer/processor importing hemlock and spruce directly from Alaska. The three importers used 75,500 m³ of Alaska spruce and hemlock timber in 1981, most of which (83%) was western hemlock imported by one firm. Table 5 summarizes survey results of the three Alaskan timber importers. Alaskan timber represented 29 percent of their total timber volume, ranging from 25 percent to 75 percent. For all Korea, Alaskan timber represented only about one percent of the total timber usage in 1981.

2. End Use

The greatest single use of Alaskan timber is western hemlock in hidden interiors of houses. Western hemlock is also used in exposed house interiors and boxes and crates. Sitka spruce usually goes into the growing musical instruments industry, particularly Korean pianos.

3. Timber Quality and Desirable Characteristics

Most Korean concern about quality pertain to Sitka spruce which is used in the higher valued musical instruments industry. They are less concerned about the quality of western hemlock which they use primarily because of price consideration. The quality of hemlock logs is not good but acceptable at the low price Koreans pay (recently \$200 per MBF, p.a.s.).

Table 5. Information summary on sawmills importing SE Alaskan timber, Korea 1/

Item	Survey results
Total annual volume:	
• Timber processed, all sources	260,667 m ³
• SE Alaskan timber	75,500 m ³
• SE Alaskan logs (n=1)	67,500 m ³
• SE Alaskan cants (n=2)	8,000 m ³
• SE Alaskan Sitka spruce (n=3)	13,000 m ³
• SE Alaskan western hemlock - all logs	62,500 m ³
Alaskan timber as % of total	1 mill - 27%, 2 mills - 75%
Recovery on logs	Sitka spruce - 65%, hemlock - 60%
Recovery on cants (n=2)	Sitka spruce - 70% and 75%
End Use	
o SE Alaskan western hemlock logs (n=1)	50%, House const. - hidden interiors 20%, House const. - exposed interiors 30%, boxes and crates
o SE Alaskan Sitka spruce scants	100%, Musical instruments

1/ A total of three integrated sawmills were surveyed and to the best of our knowledge they are the only Korean users of SE Alaskan Sitka Spruce and western hemlock. Each does its own importing of timber.

Koreans prefer the same qualities in Sitka spruce as the Japanese; high ring count, free of small knots and specific uniform grain angle. There have been problems attaining acceptable quality in most of these areas.

4. General Timber Situation in Korea

Demand

In 1981, total timber demand was 7.3 million m³ (log equivalents), sawn from 11.6 million m³ in 1978. Traditionally, most of Korea's demand for timber was for re-export. Recently domestic demand has become dominant mainly due to declines in the export market. In 1982, domestic demand is expected to account for 65 percent of the timber use and lower export demand will account for only 35 percent of the log use.

Most of the wood product exports is in the form of plywood, 2.5 million m³ log equivalents in 1981 or 93 percent of exports. However, this is down sharply from a peak of 4.9 million m³ in 1977.

The reduction in plywood exports is attributed to decreased supplies of suitable hardwood logs, more so than reduced plywood markets. Key hardwood exporting countries have significantly restricted log exports in recent years.

By 1990, Korean forestry officials expect annual timber demand to be 19 million m³ annually. They expect the domestic demand to be 14.5 million m³ and export demand to be 4.8 million m³. We believe the export demand projection may decline faster than the government estimates. Domestic demand projections are reasonable if Korea can maintain its economic growth and increase housing starts which recently ranged from 200,000 to 250,000 per year.

Supply

In 1965 domestic timber accounted for 48 percent of the total supply. Imports became more and more important as the plywood and lumber re-export industry grew, and domestic sources supplied only 8 percent in 1978. Their proportional importance has increased sharply since 1978, however, up to 16 percent in 1981. This is largely because of reduced hardwood imports for the plywood re-export industry as discussed earlier. The actual volumes have been 800,000 to 900,000 cubic meters since the mid 1960's, topping 1 million m³ in 1981.

Imported supplies reached a peak of 10.6 million m³ in 1978, declining to 6.1 million m³ in 1981. Most of this decline has been in the hardwood area and while the volume of imported softwoods is down some. Softwoods now represent a larger share of imports, 22 to 23 percent in 1978 to 1981 versus 8 percent in 1975.

5. Trends and Opportunities in the Korean Market

Due to a combination of increased demand for softwood and limited domestic resources, use of North American softwoods will presumably grow. Most of this will be in the form of logs but the share of processed timber is expected to grow.

If Alaska suppliers can be price competitive, they should expect increased exports to Korea. If current manufacturing practices hold, demand for Sitka spruce in musical instruments should increase. However, if spruce is replaced by other woods in piano keys, legs and frame, spruce demand could decline but such substitution does not appear likely.

While Korea can probably use more hemlock in the future, their actual hemlock imports will depend on what the Japanese do. If the Japan market strengthens, the Koreans will not likely compete with the Japanese for hemlock logs and cants. They will seek lower cost and lower quality substitutes. Thus, relative to Japan, the hemlock market in Korea does not look particularly good.

- Alaskan Sitka spruce is preferred over essentially all foreign spruces. Assuming prices are competitive no major threats to substitution exist and Alaskan volume should be a direct function of Japanese demand for spruce. At higher prices, substitutes do exist and will be used.
- The Japanese sawmills have had problems with quality control on Alaskan timber. We recommend Alaskan exporters start a program with key traders to identify specific problems and improve sorting and grading of timber for Japanese customers.
- The Japanese sawmillers are very interested in discussing their trading problems and establishing long-term trading relationships.

Korea is a much smaller importer than Japan but offers potential for growth in Alaskan timber imports. We offer the following specific conclusion and recommendations:

- Korea sawmillers and importers, compared to Japanese, are more price conscious and less quality conscious, particularly regarding hemlock.
- We recommend that Alaskan traders develop a sort specifically for the Koreans, like the K-sort used in the Pacific Northwest. This will complement the need to maintain higher quality and prices for the Japanese market. The lower quality material can be sorted out and sold to Korea at a fair price.
- Korean plywood mills are facing great difficulty securing Southeast Asian hardwood. They may be able to substitute some Alaskan species, e.g., cottonwood or the larger white spruce logs, to replace part of the hardwood needs and Alaska should investigate this potential.

Taiwan offers potential for Alaskan timber primarily by increasing volume in current use areas. Both spruce and hemlock markets are exploitable and current volumes could be increased in multiples. However, even if increased the volume scale will be low compared to Japan.

The People's Republic of China is a large potential market but the purchasing process is complex and not conducive to seller initiated marketing. We recommend the Alaskan traders establish a representative to work with the U.S. Chinese trade officials (The China National Native Produce and Animal By-Product Import and Export Corporation (Tuhsu)) to assure that Alaskan exporters are informed about Chinese buy orders and can respond accordingly.

V. THE POTENTIAL MARKETS FOR ALASKAN TIMBER PRODUCTS IN KOREA

A. Background

Korea is a country with few forest resources, but with a sizeable wood products export industry. The domestic forests were heavily cut in the later years of Japanese occupation for military construction purposes and before they could recover were again cut over for firewood during and just after the Korean War. They now consist largely of planted pines, growing slowly on rather poor sites, and planted poplars, plus limited old growth hardwoods, pines, and other conifers. The acreage is extensive but stocking is low, except in the poplar plantations. Total forest area is 6.6 million hectares, with an estimated 111 million cubic meters of growing stock, or 16.8 cubic meters per hectare.

Exports consist mostly of plywood produced from imported Southeast Asia hardwood logs. In recent years American softwood logs have provided the raw material for construction lumber exported to Japan and the Middle East, where Korean contractors are very active. As of 1981, Korea depended on imports for 83 percent of its timber requirements.

B. The Market Structure for Alaskan Timber in Korea

1. Importers, Sawmills and Channels of Distribution

To the best of our knowledge there are four firms that import from southeast Alaska, but only three fall strictly within the scope of this study. The fourth is a red cedar importer and falls outside the scope of this study. For the applicable cases, the market structure is the same. Each is an integrated importer/processor who imports directly from Alaska. One importer does sell a minor quantity to small independent sawmills.

The three importer/processors imported about 75,500 m³ of Alaskan timber in 1981 according to survey responses. Most of this, 83 percent, was K-sort hemlock logs imported by one firm (Table V-1). Sitka spruce imports totaled 13,000 m³ of which 8,000 m³ were cants. In 1980, one firm reported they had imported hemlock cants also, but lost money on the venture and have not repeated it.

The Alaskan timber represents about 29 percent of the total volume of the three processors and ranges from 27 percent to 75 percent. For the total Korean industry, Alaskan imports represented only about one percent of total timber usage in 1981.

2. End Use

As shown in Table V-1, the greatest share of the Alaskan timber, 31,250 m³ of western hemlock, went into hidden interiors of houses. The remainder of the western hemlock was used in exposed house interiors and boxes and crates. Sitka spruce, logs or cants, usually went into the growing musical instruments industry, particularly Korean pianos.

3. Preferences

Korean preferences for Sitka spruce require a high ring count, an even knot distribution and a specific uniform grain angle. They tend to be less concerned about quality characteristics in hemlock which is used in lower value or hidden end products.

In the case of the hemlock logs, they are generally satisfied and accept the trade-off in quality for the low price they pay (recently \$200 per MBF, FAS). Alaskan logs are criticized, however, for a high percentage of center defects. While specifications do allow up to 40 percent deduction from gross for these defects, the usual deduction is less than 20 percent. Also, the overall recovery rate on logs is relatively high, 60 percent, considering the low grade of logs imported.

Table V-1. Information summary on sawmills importing SE Alaskan timber, Korea 1/

Item	Survey results
Total annual volume:	
• Timber processed, all sources	260,667 m ³
• SE Alaskan timber	75,500 m ³
• SE Alaskan logs (n=1)	67,500 m ³
• SE Alaskan cants (n=2)	8,000 m ³
• SE Alaskan Sitka spruce (n=3)	13,000 m ³
• SE Alaskan western hemlock - all logs	62,500 m ³
Alaskan timber as % of total	1 mill - 27%, 2 mills - 75%
Recovery on logs	Sitka spruce - 65%, hemlock - 60%
Recovery on cants (n=2)	Sitka spruce - 70% and 75%
End Use	
• SE Alaskan western hemlock logs (n=1)	50%, House const. - hidden interiors 20%, House const. - exposed interiors 30%, boxes and crates
• SE Alaskan Sitka spruce cants	100%, Musical instruments

1/ A total of three integrated sawmills were surveyed and to the best of our knowledge they are the only Korean users of SE Alaskan Sitka Spruce and western hemlock. Each does its own importing of timber.

1-3