ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

9021 SENATE RESOURCES

Working for the Nature of Tomorrow

NATIONAL WILDLIFE FEDERATION

750 W. Second Ave., Suite 200, Anchorage, AK 99501 (907) 258-4800

February 21, 1994

FEB 23 1994

The Honorable Loren Leman
Alaska State Senate
State Capitol
Juneau, AK 99801-1182

Dear Senator Leman:

We are writing on behalf of the National Wildlife Federation and our 2,300 Alaska members to express opposition to House Joint Resolution No. 27 (HJR27), which requests that Congress weaken the Clean Water Act by increasing the flexibility of federal wetlands regulation in Alaska.

The resolution proceeds upon the unsupported premise that federal "wetlands regulation has placed an increasing and unnecessary burden on private landowners, Native organizations, and local and state governments by inhibiting reasonable community growth and environmentally benign, sensitive resource development." This concern was examined and rejected--at great public expense--just last year.

In late 1993, federal agencies established the Alaska Wetlands Initiative in response to the allegations of industry, the Alaska congressional delegation, and others that the Clean Water Act's section 404 program places a heavier burden on Alaskans than on people in other states. The purpose of the Initiative was to consider "environmentally appropriate means to assure regulatory flexibility" in Alaska. Interest group "stakeholders," including representatives from the oil and gas, timber, and mining industries, were asked to help the federal agencies identify "legitimate concerns" with wetlands regulation in Alaska and provide "relevant factual information" in support of these concerns.

After eight months of public meetings and debates, a statewide teleconference, several notice and comment periods, and an analysis of thousands of pages of correspondence and agency documents, the agencies reached an inescapable conclusion: Alaska's section 404 program is already fair, flexible, and adequately accommodates the reasonable expectations of development interests. The fact of the matter is:

- Alaska has a permit denial rate of only 2.4 percent, less than half that of the rest of the nation;

* Alaska has over sixty general permits, far more than any other state; and

* compensatory mitigation is required in less than one percent of the cases in Alaska, compared to thirty-five percent in the rest of the nation.

Based on the facts and public comments, the agencies recommended, and we supported, greater program efficiency and public education, rather than the deregulation of activities harmful to wetlands. A copy of the Alaska Wetlands Initiative Summary Report is enclosed for your review.

HJR27 is also factually inaccurate. It contains several "whereas" clauses copied from a bill introduced last month in Congress, the Alaska Wetlands Conservation Credit Procedures Act of 1994, S. 49. S. 49 relies upon incorrect "findings" and misleading statistics to justify stripping Alaska of much of the wetlands protection enjoyed by other states. A copy of a NWF analysis of S. 49 is enclosed.

For instance, HJR27 and S. 49 both wrongly claim that sixty million acres of Alaska wetlands are "conserved" by federal ownership, and suggest that the rest ought to be opened to development. However, the fact that wetlands are publicly owned does not ensure their protection. Roads, buildings, and recreation facilities are often constructed in national parks and refuges. Placer mines operate in wetlands in Denali National Park, farming occurs in wetlands areas in the Yukon Delta National Wildlife Refuge, and oil is produced on the Kenai National Wildlife Refuge. Many wilderness areas allow the exercise of existing mineral claims, limited timber harvesting, and the construction of reservoirs, transmission lines, and other public works. Although development is restricted on some federal lands, wetlands destruction has occurred--and continues to occur--everywhere in Alaska.

In conclusion, the National Wildlife Federation strongly urges you to reject this resolution. The flexibility already built into the section 404 program is adequate to accommodate the "unique" Alaska circumstance of pristine and abundant wetlands. Further weakening the program would serve no legitimate purpose and would jeopardize the vitality of many Alaska industries, such as commercial fishing and tourism, which increasingly depend upon the health of wetlands ecosystems.

Sincerely yours,

Scott Feierabend, Director

Anthony N. Turrini, Counsel

cc: Tony Knowles, Governor

II

104TH CONGRESS
1ST SESSION

S. 49

To amend the Federal Water Pollution Control Act to modify the wetlands regulatory program corresponding to the low wetlands loss rate in Alaska and the significant wetlands conservation in Alaska, to protect Alaskan property owners, and to ease the burden on overly regulated Alaskan cities, boroughs, municipalities, and villages.

IN THE SENATE OF THE UNITED STATES

JANUARY 4, 1995

Mr. STEVENS (for himself and Mr. MURKOWSKI) introduced the following bill; which was read twice and referred to the Committee on Environment and Public Works

---

A BILL

To amend the Federal Water Pollution Control Act to modify the wetlands regulatory program corresponding to the low wetlands loss rate in Alaska and the significant wetlands conservation in Alaska, to protect Alaskan property owners, and to ease the burden on overly regulated Alaskan cities, boroughs, municipalities, and villages.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Alaska Wetlands Conservation Credit Procedures Act of 1994".

SEC. 2. FINDINGS.

The Congress finds that—

(1) according to the United States Fish and Wildlife Service, approximately 170,200,000 acres of wetlands existed in Alaska in the 1780s and approximately 170,000,000 acres of wetlands exist now, representing a loss rate of less than one-tenth of 1 percent through human and natural processes;

(2) according to the United States Fish and Wildlife Service more than 221 million acres of wetlands existed at the time of Colonial America in the area that is now the contiguous United States and 117 million of those acres, roughly 53 percent, have been filled, drained, or otherwise removed from wetland status;

(3) Alaska contains more wetlands than any other State, and more wetlands than all other States combined;

(4) 88 percent of Alaska's wetlands are publicly owned, whereas only 26 percent of the wetlands in the contiguous 48 States are in public ownership;

(5) approximately 98 percent of all Alaskan communities, including 200 of 209 remote villages in Alaska, are located in or adjacent to wetlands;

(6) approximately 62 percent of all federally designated wilderness lands, 70 percent of all Fed-

eral park lands, and 90 percent of all Federal refuge lands are located in Alaska, thus providing protection to approximately 60 million acres of wetlands;

(7) more than 60 million acres of wetlands are conserved in some form by land designations that restrict utilization or degradation of wetlands;

(8) 104 million acres of land were granted to the State of Alaska at statehood for purposes of economic development;

(9) approximately 43 million acres of land were granted to Native Alaskans through regional and village corporations and native allotments for their use and between 45 percent and 100 percent of each Native corporations' land is categorized as wetlands;

(10) development of basic community infrastructure in Alaska, where approximately 75 percent of the non-mountainous areas are wetlands, is often delayed and sometimes prevented by the wetlands regulatory program for minimal identifiable environmental benefit.

(11) the 1899 Rivers and Harbors Act formerly regulated disposition of dredge spoils in navigable waters, which did not include wetlands, to keep navigable waters free of impairments;

(12) the 1972 Clean Water Act formed the basis for a broad expansion of Federal jurisdiction over wetlands by modifying the definition of "navigable waters" to include all "waters of the United States";

(13) in 1975, a United States district court ordered the Corps to publish revised regulations concerning the scope of the section 404 program, regulations that expanded the scope of the program to include the discharge of dredged and fill material into wetlands;

(14) the wetlands regulatory program was expanded yet again by regulatory action to include isolated wetlands, those that are not adjacent to navigable waters, and such an expansion formed the basis for burdensome intrusions on the property rights of Alaskans, Alaskan Native Corporations, the State of Alaska, and property owners in Alaska;

(15) expansion of the wetlands regulatory program in this manner is beyond what the Congress intended when it passed the Clean Water Act and the expansion has placed increasing and unnecessary economic and administrative burdens on private property owners, small businesses, city governments, State governments, farmers, ranchers, and others

for negligible environmental benefit associated with wetland permits;

(16) for Alaska, a State with substantial conserved wetlands and less than 1 percent private, non-corporate land ownership, the burdens of the current wetlands regulatory program unnecessarily inhibit reasonable community growth and environmentally benign, sensitive resource development;

(17) Alaska villages, municipalities, boroughs, city governments, and Native organizations are experiencing increasing frustration with the constraints of the wetlands regulatory program because it interferes with the location of community centers, airports, sanitation systems, roads, schools, industrial areas, and other critical community infrastructure;

(18) policies that purport to achieve "no net loss" of wetlands reflect a Federal response to the 53 percent loss of the wetlands base in the south 48, a calculation that excludes Alaska wetlands;

(19) total wetlands loss in Alaska is less than one-tenth of 1 percent of the total wetlands acreage in Alaska;

(20) individual landowners in Alaska have experienced devaluations of up to 97 percent of their property value due to wetlands regulations and the

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION

for negligible environmental benefit associated with wetland permits;

(16) for Alaska, a State with substantial conserved wetlands and less than 1 percent private, non-corporate land ownership, the burdens of the current wetlands regulatory program unnecessarily inhibit reasonable community growth and environmentally benign, sensitive resource development;

(17) Alaska villages, municipalities, boroughs, city governments, and Native organizations are experiencing increasing frustration with the constraints of the wetlands regulatory program because it interferes with the location of community centers, airports, sanitation systems, roads, schools, industrial areas, and other critical community infrastructure;

(18) policies that purport to achieve "no net loss" of wetlands reflect a Federal response to the 53 percent loss of the wetlands base in the south 48, a calculation that excludes Alaska wetlands;

(19) total wetlands loss in Alaska is less than one-tenth of 1 percent of the total wetlands acreage in Alaska;

(20) individual landowners in Alaska have experienced devaluations of up to 97 percent of their property value due to wetlands regulations and the

tax base of many communities has diminished by those regulations.

SEC. 3. AMENDMENT TO THE FEDERAL WATER POLLUTION CONTROL ACT.

The Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.) is amended—

(a) in section 101(a) (33 U.S.C. 1251(a)) by—

(1) striking "and" at the end of paragraph (6);

(2) striking the period at the end of paragraph (7) and inserting in lieu thereof "; and"; and

(3) adding the following new paragraphs:

"(8) it is the national policy to—

"(A) achieve a balance between wetlands conservation and adverse economic impacts on local, regional, and private economic interests and

"(B) to eliminate the regulatory taking of private property by the regulatory program authorized under section 404;

"(9) it is the national policy to encourage localized wetlands planning, without mandating it and by providing funds to encourage it, and such planning shall allow local political subdivisions and local governments to apply differential standards for the issuance of wetlands permits based on factors that include the relative amount of conserved wetlands habitat and the wetlands loss rate in the State in which such political subdivision or local government is located; and

"(10) it is the national policy that compensatory mitigation on wetlands or potential wetlands located outside the boundaries of a State shall not be required, requested, or otherwise utilized to offset impacts to wetlands inside that State.";

(b) in section 404(b) (33 U.S.C. 1344(b)) by inserting immediately after "anchorage" the following—

"; *Provided, however,* That the guidelines adopted pursuant to clause (1) for a State with substantial conserved wetlands areas—

"(A) shall not include requirements or standards for mitigation to compensate for wetlands loss and adverse impacts to wetlands;

"(B) may include requirements or standards for minimization of adverse impacts to wetlands; and

"(C) may include standards or requirements for avoidance of impacts only if the permit applicant is not required to establish that upland alternative sites do not exist.";

(c) in section 404(e) (33 U.S.C. 1344(e)) by inserting at the end the following new paragraph—

"(3) Notwithstanding the requirements of paragraphs (1) and (2), at the request of a State with substantial conserved wetlands areas, the Secretary shall issue general permits for such States and the requirements under which such general permits are issued shall contain a regulatory standard for discharge of dredged or fill material into navigable waters in such State, including wetlands, that is no greater than the standard under subsection (b).";

(d) in section 404(f)(1) (33 U.S.C. 1344(f)(1)) by—

(1) striking the comma at the end of subparagraph (F) and inserting in lieu thereof a semicolon; and

(2) adding the following new subparagraphs—

"(G) associated with airport safety (ground and air) in a State with substantial conserved wetlands areas, and in any case associated with airport safety (ground and air) when the Secretary of Transportation determines that it is advisable for public safety reasons and deems it necessary;

"(H) for construction and maintenance of log transfer facilities associated with log transportation activities;

"(I) for construction of tailings impoundments utilized for treatment facilities (as determined by the development document) for the mining subcategory for which the tailings impoundment is constructed;

"(J) for construction of ice pads and ice roads and for purposes of snow storage and removal."; and

(e) by adding at the end of section 404 (33 U.S.C. 1344) the following new subsections—

"(s) DEFINITIONS.—For purposes of this section the term—

"(1) 'conserved wetlands' means wetlands that are located in the National Park System, National Wildlife Refuge System, National Wilderness System, the Wild and Scenic River System, and other similar Federal conservation systems, combined with wetlands located in comparable types of conservation systems established under State and local authority within State and local land use systems.

"(2) 'economic base lands' means lands conveyed to, selected by, or owned by Alaska Native entities pursuant to the Alaska Native Claims Settlement Act, Public Law 92–203, as amended, or the Alaska Native Allotment Act of 1906 (34 Stat. 197), and lands conveyed to, selected by, or owned by the State of Alaska pursuant to the Alaska Statehood Act, Public Law 85–508, as amended.

"(3) 'State with substantial conserved wetlands areas' means any State which—

"(A) contains at least 15 areas of wetlands for each acre of wetlands filled, drained, or otherwise converted within such State (based upon wetlands loss statistics reported in the 1990 United States Fish and Wildlife Service Wetlands Trends report to Congress entitled 'Wetlands Losses in the United States 1780's to 1980's'); or

"(B) the Secretary of the Army determines has sufficient conserved wetlands areas to provided adequate wetlands conservation in such State, based on the policies set forth in this Act.

"(t) ALASKA NATIVE AND STATE OF ALASKA LANDS.—

"(1) In general.—The Secretary shall issue individual and general permits pursuant to the standards and requirements of subsections (a) and (b) for a State with substantial conserved wetlands areas.

"(2) Permit considerations.—For permits issued pursuant to this section for economic base lands, in addition to the requirements in subsections (a) and (b), the Secretary shall—

"(A) balance the standards and policies of this Act against the obligations of the United States to allow economic base lands to be beneficially used to create and sustain economic activity;

"(B) with respect to Alaska Native lands, give substantial weight to the social and economic needs of Alaska Natives; and

"(C) account for regional differences in the abundance and value of wetlands.

"(3) General permits.—For permits issued under this section on lands owned by Alaska villages, the Secretary shall issue general permits for disposition of dredged and fill material for critical infrastructure including water and sewer systems, airports, roads, communication sites, fuel storage sites, landfills, housing, hospitals, medical clinics, schools, and other community infrastructure in rural Alaska villages without a determination that activities authorized by such a general permit cause only minimal adverse environmental effects when performed separately and will have only minimal cumulative adverse effects on the environment.

"(4) OTHER CONSIDERATIONS.—The Secretary shall consult with and provide assistance to Alaska Natives (including Alaska Native Corporations) and the State of Alaska regarding promulgation and administration of policies and regulations under this section.".

Alaska State Legislature

Representative Joe Green

Sponsor Statement

HJR 27 - Requesting the US Congress to Accommodate Alaska's Wetlands Circumstances

HJR 27 requests Congress to provide regulatory flexibility in the reauthorization of the Clean Water Act, in recognition of Alaska's unique wetlands circumstances.

For the past several years Alaskans have been seeking administrative remedies to the problems caused by strict adherence to federal wetlands policy, including the "no net loss" provision. These efforts have been largely unsuccessful. Now, with members of our congressional delegation in leadership positions, it appears likely that a legislative remedy may be possible.

Senators Ted Stevens and Frank Murkowski have introduced S.49, currently in the Senate Environment and Public Works committee, which seeks to relax the restrictions on the use of wetlands in Alaska. A similar bill has also been introduced in the House of Representatives, where it sits in the House Transportation and Infrastructure committee.

HJR 27 puts the 19th Alaska Legislature on record in support of modifications to the wetlands management program.

This edition sponsored by: **National Bank of Alaska**

Resource Review

June 1994 A monthly publication of the Resource Development Council, Inc.

Inside this issue:

New wetlands report falls short of recognizing Alaska's unique circumstances

Report fails to clarify how regulations will be applied in Alaska

The Clinton administration's newly proposed guidelines on how wetlands development should proceed in Alaska doesn't go far enough in recognizing that a "no overall net loss of wetlands" policy will not work in Alaska, according to industry and community leaders.

Virtually all development in Alaska, from homeless shelters to schools, hospitals, utility corridors and roads requires land regulated as wetlands. Land that is not considered wetlands is mainly mountainous terrain, leaving little option for where to develop.

As part of the administration's August 1993 Wetlands Plan, the Environmental Protection Agency (EPA) and the Corps of Engineers convened a panel of "stakeholders" and solicited public comments in a series of meetings across Alaska from November through March to identify and address concerns with federal wetlands policy in the state. The Clinton administration dubbed the six-month effort the "Alaska Wetlands Initiative," which the product of was to guide regulators in formulating new, flexible guidelines recognizing Alaska's unique wetlands circumstances.

The final report, however, offers little in the way of substantive improvements in the Clean Water Act Section 404 program, RDC and other stakeholders claim. Although the guidelines were designed to be flexible, the final report still does not clarify how the regulations will be applied in Alaska, a major concern of stakeholders.

For instance, the report basically states that the "no-net-loss" goal will not always be achieved on a permit-by-permit basis in Alaska, but it doesn't clearly state how, when and where it will be implemented.

"What continues to worry Alaskans is the uncertainty involved in the permitting procedures," said Becky Gay, Executive Director of the RDC. "Which permits will be required to compensate with a net gain in order for some permits to allow a net loss?" Gay asked. "Certainty of how 'no net loss' would be implemented in Alaska was not achieved, and removing the uncertainty was a goal of all stakeholders."

(Continued on page 2)

Wetlands proposal offers little substantive improvements for Alaska

(Continued from cover)

Since the report doesn't clearly say Alaska is exempt from "no net loss" or identify which permits will be required to fulfill such a goal, Gay and local community officials fear the new policy could leave all construction open to court challenges from environmental groups.

Many stakeholders, including RDC, repeatedly stressed throughout the Alaska Wetlands Initiative process that compensatory mitigation does not make sense in Alaska because of the abundance of wetlands in the state, the minimal loss of wetlands in Alaska and the general lack of restoration sites. Compensatory mitigation is usually unavailable on-site, with 74 percent of the non-mountainous lands in Alaska considered jurisdictional wetlands. Practical alternatives mostly do not exist.

The Resource Development Council (RDC) is Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in an orderly manner and to create a broad based, diversified economy while protecting and enhancing the environment.

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Resource Review is the official monthly publication of the Resource Development Council. RDC is located at 121 W. Fireweed, Suite 250, Anchorage, AK 99503 (907) 276-0700. Fax: 276-3887.

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Writer & Editor
Carl Portman

> *RDC believes minimizing a project's impact fulfills the primary purpose of sequencing when applied to Alaska. Rigid sequencing, the steps of avoiding wetlands, minimizing impacts, then compensating for wetlands used, represents onerous treatment in a state which contains more pristine wetlands than the rest of the U.S. combined.*

Most stakeholders would like to see the state's wetlands classified by their value, then have simpler and flexible rules for the least valuable ones.

RDC believes minimizing a project's impact fulfills the primary purpose of sequencing when applied to Alaska. Rigid sequencing, the steps of avoiding wetlands, minimizing impacts, then compensating for wetlands used, represents onerous treatment in a state which contains more pristine wetlands than the rest of the U.S. combined.

Gay noted that in the final report, the Section 404 program still overrides previous Congressional action. RDC would like to see the socio-economic imperatives of prior land set-asides (the Alaska Native Claims Settlement Act, the Alaska National Interest Lands Conservation Act and the Statehood Act) given priority status over the 404 program.

"In Alaska, Congressionally mandated land compacts and conservation efforts to date should be given precedence, particularly if any alternatives test is required," Gay said.

"In the interest of fair public policy, Congress must recognize Alaska's wetlands situation. With over 50 percent of the nation's total wetlands base, any national policy affects Alaska first and most."

The Alaska delegation is mounting a campaign to gain regulatory flexibility through the reauthorization of the Clean Water Act which may arrive on the Senate floor later this summer. Gay was in Washington recently for a series of meetings with administration and congressional officials on the clean water bill.

Gay said preventing "takings" should be a policy outcome in reauthorization of the Clean Water Act. "If takings occur, compensation should be given for lands with economic value diminished or taken by wetlands regulation."

Only about 200,000 acres (less than one percent) of Alaska's wetlands have been used for all types of development, ranging from community infrastructure to oil field development.

Message from the Executive Director
by Becky L. Gay

RDC, delegation work on new wetlands bill

On the opening day of the 104th Congress, Alaska's Congressional delegation wasted no time in launching an aggressive agenda addressing top priorities of the 49th state. At the top of the Alaska agenda is a bill jointly introduced by Senators Stevens and Murkowski, "The Alaska Wetlands Conservation Credit Procedure Act of 1995."

Senate Bill 49, previously the legislative number assigned to proposed wilderness bills, is slated to reform Section 404 of the wetlands permitting program under the Clean Water Act by introducing balance, common sense and reason into wetlands regulation in Alaska.

The new measure includes changes addressing Alaska's unique circumstances, as well as national wetlands policy. The bill specifies that a "no net loss" of wetlands policy is not applicable in Alaska, was not designed for Alaska circumstances, and should not be applied here, a long-standing policy omission sought by RDC.

Provisions specific to Alaska include changes to the sequencing methodology, the elimination of compensatory mitigation requirements of current permit processing, and the expansion and applicability of general permitting standards.

Federal law will be amended to ensure national policy will "achieve a balance between wetlands conservation and adverse economic impacts on local, regional, and private economic interests" and "eliminate the regulatory taking of private property by the regulatory program authorized under section 404."

RDC highly endorses a number of important segments, including the exemption of log transfer sites and ice pads from mitigation sequencing requirements. RDC also highlighted the need to make airport safety a priority over the conservation of wetlands in a commercial air zone.

The bill further recognizes that Alaska should get credit for those wetlands already in protected status. This change to federal law ensures "conserved wetlands" will include those wetlands located in federal, state and locally designated conservation systems. This change is important when designing mitigation banking systems in Alaska.

Also noted in other provisions of this legislation, lands owned by Alaska Native entities and the State of Alaska shall be considered economic base lands, highlighting the importance of the social and economic needs of Alaska Natives and the citizens of Alaska and recognizing prior agreements under other federal laws.

Congressman Young will form a wetlands task force this session addressing wetlands policy and its application to Alaska and the nation. The task force will include members from the House Resource, Transportation and Infrastructure, and Agriculture committees. Congressman Young will reportedly introduce a wetlands bill in the House of Representatives later this session.

Much thanks goes out to the Alaska delegation and staff for the introduction of a bill recognizing a wetlands regulatory fix for the uniquely qualified state of Alaska. For a copy of this bill, call RDC. Remember, Alaska is not just a state of mind.

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RDC Executive Director Becky Gay, member of the OCS Regional Stakeholders Task Force, participates in a recent hearing in Anchorage at the U.S. Minerals Management Service. The Task Force will develop recommendations to MMS on the upcoming 5-year leasing program. Pictured at left is Kenai Peninsula Borough Mayor Don Gilman.

HJR

38

FISCAL NOTE

STATE OF ALASKA — BILL NO. HJR 38
1995 LEGISLATIVE SESSION

Revision Date:		Dept. Affected:	Fish and Game
Title:	Magnuson Fishery Conservation & Management Act	BRU:	CFMD
		Component:	Fisheries Management
Sponsor:	Rep. Austerman		
Requester:	House FSH	COMPONENT SERIAL NO.	1041

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cost: $ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by:	Geron Bruce	Phone:	465-6143
Division:	Commissioner's Office	Date:	4/9/95
Approved by Commissioner:	[signature]	Date:	4/10/95
Agency:	Fish and Game		

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(Rev 10/94) 95fisnote.xls/OBR

SENATE COMMITTEE REPORT

DATE: 4/29/95 FURTHER:

DATE TURNED INTO OFFICE: 5-5-95

Resources Committee considered CS FOR HOUSE JOINT RESOLUTION NO. 38(FSH)

Relating to reauthorization of the Magnuson Fishery Conservation and Management Act.

and recommends:

[ ] be replaced with ____ CS ____________(______)

[ ] adopt previous ___ CS ____________(______)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by ____________ Committee

[ ] further referral to the ____________ Committee

Senate Bill:
[ ] same title
[ ] new title
House Bill:
[ ] same title
[ ] technical change
[ ] new: SCR* ____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
Rick Halford	✓				
Tina Pearce	✓				
		Adrian Taylor	✓		
Lyman Hoffman			✓		
CHAIR: Loren Leman	✓				

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
ADF&G	4/18	✓	

[ ] APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

HJR 38 amendments

(1) authorize the regional fishery management councils to minimize the bycatch of unwanted species, sizes, or sexes of fishery resources and to promote fuller utilization of fishery resources;

(4) establish an annual review of individual fishery quota systems for federally managed fisheries and report to the Congress and the affected state governments on the benefits and impacts of the individual quota systems;

(5) provide a mechanism by which entry level fishermen or small vessel owners who do not hold individual transferrable quotas may gain a fair and reasonable opportunity to obtain individual transferrable quotas;

(9) authorize the establishment and implementation of appropriate community development quota or community protection set-aside programs for the Bering Sea and Aleutian Islands areas to aid fishery development and recognize the economic dependance of coastal communities upon fishing; and be it

8472-amend

CS FOR HOUSE JOINT RESOLUTION NO. 38(FSH)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON FISHERIES

Offered:
Referred:

Sponsor(s): REPRESENTATIVES AUSTERMAN, Navarre, Grussendorf

A RESOLUTION

Relating to reauthorization of the Magnuson Fishery Conservation and Management Act.

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

WHEREAS the Magnuson Fishery Conservation and Management Act (hereinafter "the Act") established a fishery conservation zone, now known as the exclusive economic zone (EEZ), out to 200 miles from the shoreline of Alaska and the other states to protect, conserve, and manage the extensive fisheries resources of the continental shelf; and

WHEREAS coastal communities of Alaska lie adjacent to, and depend upon, the fishery resources of the federally managed EEZ in the Bering Sea, Gulf of Alaska, and North Pacific Ocean off Alaska; and

WHEREAS the Act provides for the management of the fishery resources of the EEZ through regional fishery management councils and by the National Marine Fisheries Service; and

WHEREAS the United States Congress is currently considering the reauthorization of the Act; and

WHEREAS several issues of national and regional importance are being considered as part of the reauthorization process for the Act;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Congress to reauthorize the Magnuson Fishery Conservation and Management Act with the following provisions:

(1) authorize the regional fishery management councils to minimize the bycatch of unwanted species, sizes, or sexes of fishery resources and to promote full utilization of fishery resources;

(2) require the regional fishery management councils to establish and implement protections against overfishing of all species of fishery resources;

(3) establish reasonable restrictions on direct, personal, and financial conflicts of interest by members of the regional fishery management councils, provided that those restrictions recognize that minor insignificant conflicts are inevitable and acceptable given the nature of the membership of the regional fishery management councils;

(4) establish a moratorium, for a minimum of three years, upon the establishment and implementation of individual fishery quota systems for federally managed fisheries;

(5) provide a portion of the annual harvest in a fishery subject to individual transferrable quotas for entry level fishermen or small vessel owners who do not hold individual transferrable quotas;

(6) require a portion of fees or rents collected from federally managed fisheries be distributed to the adjacent coastal states for fishery conservation and management purposes;

(7) require that the federal fee system for federally managed fisheries allow a deduction for other local, state, and federal fishing fees and taxes that are paid by fishermen;

(8) amend 16 U.S.C. 1856 to authorize the extension of state jurisdiction into the exclusive economic zone when a North Pacific Fishery Management Council fishery management plan does not exist; and

(9) authorize the establishment and implementation of community development quota or community protection set-aside programs for the Bering Sea and Aleutian Islands areas to aid fishery development and recognize the economic dependence of coastal communities upon fishing; and be it

FURTHER RESOLVED by the Alaska State Legislature that fees, taxes, or royalties levied on the harvesting or processing of fishery resources in the exclusive economic zone must recognize and give credit for other federal, state, and local fees, taxes, and royalties also levied on those same activities and that revenue derived from fees, taxes, or royalties levied on the harvesting or processing of fishery resources in the exclusive economic zone be utilized for the management, enforcement, research, and administration of fishery programs in the areas where the revenue was derived; and be it

FURTHER RESOLVED by the Alaska State Legislature that the National Marine Fisheries Service should receive the funding necessary to provide the regional fishery management councils with sufficient biological information to implement controls against overfishing and with the research needed to understand and manage fishery resources; and be it

FURTHER RESOLVED that the Alaska State Legislature respectfully opposes any proposal to alter the established composition of the North Pacific Fishery Management Council.

COPIES of this resolution shall be sent to the Honorable Frank Murkowski, Chair, United States Senate, Committee on Energy and Natural Resources; the Honorable Don Young, Chair, United States House of Representatives, Committee on Resources; and to the Honorable Ted Stevens, Chair, United States Senate Subcommittee on Oceans and Fisheries of the Committee on Commerce, Science, and Transportation.

Alaska State Legislature

House of Representatives
Special Committee on Fisheries

SPONSOR STATEMENT

HJR 38 - "Reauthorization of the Magnuson Act"

April 10, 1995

House Joint Resolution 38 speaks to the upcoming Magnuson Fishery Conservation and Management Act reauthorization which was last re-authorized in Congress for a period of three years and is set to expire at the end of this year. The Act serves two purposes: 1) to make a national claim on the fisheries resources of the continental shelf in the band of marine waters from 3 to 200 miles offshore -- the exclusive economic zone (EEZ); and 2) to set up a system for managing and conserving the fisheries resources within the zone. To meet this management and conservation aim, Congress created the Regional Fishery Management Council system. Alaska is represented on the North Pacific Fishery Management Council.

In creating the Council system, Congress recognized the strong interest coastal states had in the fisheries resources of the EEZ off their shores. Congress charges the Councils with the primary responsibilities for determining management policy, within the EEZ, and mandates that the voting members of each of the eight regional Councils be drawn from the relevant coastal states. There is only one voting member representing the federal government on each

Room 431, State Capitol, Juneau, Alaska 99801-1182 (907) 465-4230 or 465-2487

Alaska State Legislature

House of Representatives
Special Committee on Fisheries

Council.

The North Pacific Fishery Management Council is unique among the eight regional Councils created by Congress. This Council is the only one assigned the EEZ lying directly and entirely off the coast of a single state -- Alaska. All of the other Councils' regions of authority span multiple state coastlines. Congress recognized this uniqueness, as well as the historic participation in the fisheries off Alaska by residents of Washington and Oregon, when prescribing the voting membership of the North Pacific Fishery Management Council. There are 6 votes from Alaska, 3 from Washington, 1 from the National Marine Fisheries Service.

Maintaining that Alaska majority on the NPFMC is one of the principal issues during this and former Magnuson Act reauthorizations and is addressed in this resolution. This resolution also suggests several provisions for the state's best interest be included within the reauthorization.

Thank you for your consideration of this resolution.

Room 434, State Capitol, Juneau, Alaska 99801-1182 (907) 465-4230 or 465-2487

HJR

43

CS FOR HOUSE JOINT RESOLUTION NO. 43(FSH)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON FISHERIES

Offered:
Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON FISHERIES

A RESOLUTION

Relating to commercial fishing and subsistence use in Glacier Bay National Park.

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

WHEREAS the National Park Service is currently addressing the issue of subsistence use and commercial fishing in Glacier Bay National Park (Park) and is considering the status of subsistence use and commercial fishing in the park; and

WHEREAS subsistence use and commercial fishing have occurred in the Park since before it was established as a national monument in 1925 up to the present day; and

WHEREAS the National Park Service currently does not recognize the right of residents of Hoonah and other local communities to use the area now included in the Park for subsistence use, as their ancestors had done for generations; and

WHEREAS the prohibition of subsistence use and commercial fishing in the Park would have disastrous and widespread economic, environmental, and social consequences for the fishermen of Southeast Alaska and the communities in which they reside; and

WHEREAS the continued subsistence and commercial use of fisheries resources within the navigable waters of the Park are desirable and are environmentally compatible with the purposes of the Park; and

WHEREAS the harvest of fisheries resources in the Park is conservatively managed by the Alaska Board of Fisheries and the Alaska Department of Fish and Game to promote the sustained health of the fish stocks; and

WHEREAS migratory species of fish that do not originate in the Park constitute the majority of the fish harvested within the Park; a portion of the salmon harvested in the Park is the result of salmon enhancement and rehabilitation efforts by the State of Alaska and private nonprofit aquaculture associations; and

WHEREAS the National Park Service must administer the Park subject to existing rights, statutes, and regulations; and

WHEREAS National Park Service regulations specifically provide for commercial sport fishing activities and for the use of large tour ships within the Park; and

WHEREAS the State of Alaska has a claim to ownership of the submerged lands and navigable waters of the Park; and

WHEREAS the State of Alaska exercises management authority over fishery resources of the Park; and

WHEREAS issues relating to state and federal jurisdiction in the Park have not been resolved; and

WHEREAS subsistence use and commercial fishing in the Park do not threaten Park resources, visitor enjoyment of Park resources, or whale habitat in the Park;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the National Park Service to work with the state, other federal agencies, and affected parties to study the resources in Glacier Bay National Park and the effect of sport and commercial fishing, subsistence use, and tourism on these resources; and be it

FURTHER RESOLVED that the National Park Service, if it promulgates regulations,

(1) authorize continued commercial fishing under the laws of the State of Alaska within the marine waters of Glacier Bay National Park; and

(2) expressly provide for subsistence uses in the Park.

COPIES of this resolution shall be sent to the Honorable Bill Clinton, President of the United States; the Honorable Bruce Babbitt, Secretary of the U.S. Department of the Interior; Roger G. Kennedy, Director, National Park Service, U.S. Department of the Interior; Robert Barbee, Alaska Regional Director, National Park Service, U.S. Department of the Interior; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the

Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. HJR 43

Revision Date:
Title: Commercial and Subsistence Fishing in Glacier Bay National Park
Sponsor: House Special Committee on Fisheries
Requester: House Special Committee on Fisheries

Dept. Affect: Fish and Game
BRU: CFMD
Component: Fisheries Management
COMPONENT SERIAL NO. 1941

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cost: $ 0.0

POSITIONS

	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Bob Clasby
Division: CFMD
Phone: 465-4210
Date: 4/14/95

Approved by Commissioner: Frank Rue
Date: 4.19.95
Agency: Fish and Game

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DEPARTMENT OF FISH AND GAME

POSITION PAPER

Bill Number: HJR 43

Sponsor: House Special Committee on Fisheries

Bill Title: Commercial and Subsistence Fishing in Glacier Bay National Park

Department Position: Support

Background / Legislative Intent

Subsistence hunting, fishing, and gathering has taken place within the present boundaries of Glacier Bay National Park since the earliest human habitation in the Icy Straits area. Commercial fishing has taken place continuously in and near what is now Glacier Bay National Park since at least the turn of the century. In recent years, the NPS has put forth regulations denying subsistence harvests in the park. This ban is strongly contested by Tlingit residents of Hoonah, many of whom continue to harvest in the park. NPS has proposed phasing out all commercial fishing from waters under its jurisdiction. They maintain that such uses are not compatible with the park, and they have concerns about conservation of harvested species and stocks. Fishermen and the state maintain that those uses are compatible, particularly in non-wilderness areas, and that the state can maintain populations at healthy levels. The state and fishing interests are also willing to collaborate on fisheries research in the park. Elimination of commercial fishing would have detrimental effects on the economies of the communities neighboring the park (Pelican, Elfin Cove, Hoonah, and Gustavus) as well as larger impact on commercial fishing in the region. Closing commercial fishing in the park would concentrate the fishing fleet in areas already fully exploited and result in some portion of the harvestable fishery surplus not being taken.

Analysis of Bill/Program Effects

This bill a) requests National Park Service to work with the state, other federal agencies, and interested parties to study the resources of Glacier Bay National Park and the effect of sport and commercial fishing, subsistence use, and tourism on these uses and b) resolves that National Park Service expeditiously amend its regulations to 1) allow commercial fishing under state law within the nonwilderness areas of the park and 2) expressly provide for subsistence uses in the Park. The whereas sections of the bill review past uses of Glacier Bay, recognize Hoonah and other communities' subsistence use, describe the management situation in Glacier Bay, and refers to key State of Alaska positions on use of Glacier Bay.

ADFG has consistently supported the right of both subsistence and commercial fishers to continue to use the waters of Glacier Bay. ADFG has not accepted a ban on fishing in wilderness waters. The department has provided documentation on subsistence and other harvests in the bay. The department has worked with affected interests to achieve a legislative solution to these issues, to no avail.

The proposed resolution would have no direct effect on the programs of either the Subsistence or CFMD divisions.

Commissioner's Signature Frank Rue Date 4·19·95

GLACIER BAY NATIONAL PARK

A LEGACY OF USE

Glacier Bay National Park encompasses a vast area comparable in size to the state of Connecticut, and incorporates more than half a million marine acres of the most productive fishing grounds in southeast Alaska. The park extends from Excursion Inlet to the east of Glacier Bay, to just north of Cape Fairweather on the outer coast, and includes all waters to three miles offshore.

HISTORY

200 years ago, advancing glaciers displaced several Tlingit clans from their ancestral homeland, Glacier Bay. The Tlingits settled the village of Huna (Hoonah) to the south but continued to travel to Glacier Bay to hunt, fish, and gather food. Today, many descendants of the original people of Glacier Bay conduct both subsistence and commercial fisheries in Glacier Bay National Park (GBNP).

Shaded area represents GBNP. The Park spans 500,000 marine acres.

Commercial fishing has occurred in the area waters for well over a century. A remote and bountiful region, northern Southeast Alaska has supported several generations of Alaskan fishermen. Bound to GBNP by proximity and need, the area residents have grown heavily reliant upon its resources. Hoonah is now just one of many rural villages whose people look to the Park for sustenance.

In 1925, Glacier Bay was declared a national monument by presidential proclamation. In 1980 it was declared a national park with the signing of the Alaska National Interest Lands Conservation Act (ANILCA), and some areas were designated wilderness. In 1925, and again in 1980, the federal government promised commercial and subsistence fishermen continued access to their historic fishing grounds. In 1983, the National Park Service (NPS) promulgated regulations prohibiting commercial fishing in national parks. However, the NPS chose not to enforce this policy in GBNP, until now.

LAWSUIT

The Alaska Wildlife Alliance (Anchorage), and American Wildlands (Englewood, Colorado), filed suit against the NPS in 1990, demanding an end to subsistence activities and commercial fishing in GBNP. The NPS subsequently proposed regulations that would halt subsistence use immediately and phase-out commercial fishing by 1997. The NPS also proposed a seven-year study to determine the impact of commercial fishing on the Park.

PROPOSED PHASE-OUT

The NPS claims that seven years will give GBNP fishermen enough time to amortize their equipment or move to other fishing grounds. This is absurd. It is no simple matter for a fisherman to relocate. Commercial fishing involves more than tossing some gear overboard and hauling in a harvest. Learning new fishing grounds, at minimum, involves a long period of adjustment, and the potential for conflicts with existing users is high. Closure of such a vast area would mean extensive crowding of other fishing grounds, short-term losses for fishermen, and a long-term loss of economic efficiency for the fleet as a whole.

There are few employment alternatives for fishermen who may be displaced from Glacier Bay. However, it's not just fishermen who would suffer, but the industries and communities that support the fleet.

COMMUNITY IMPACT

Banning commercial fishing in GBNP would directly impact such communities as Angoon, Sitka, Yakutat, Tenakee, Funter Bay, Gustavus, Pelican, Juneau, Douglas, Elfin Cove, and Hoonah, by depressing economies and disrupting the traditional lifestyles of the local people.

These towns have a combined population base of about 38,000 people, or 6% of Alaska's population, many of whom are dependent on the seafood industry. A recent study by Sealaska Corporation estimates the annual value of the Glacier Bay fisheries at $10.5 million.

In Pelican, a village of 300, fishing is the primary revenue generator. Most residents of Pelican are fishermen. The local processing plant is the single largest employer and contributes heavily to the economic health of the community through local taxes and the employment of roughly 100 people. The GBNP crab harvest alone accounts for as much as 20% of all seafood processed in Pelican each year. To close or heavily restrict any of the Park's commercial fisheries would be financially devastating to Pelican's processing plant and, in turn, the city of Pelican.

The annual value of the Glacier Bay fisheries is an estimated $10.5 million.

Each year, about 40 workers are employed to process the commercial catch landed in Hoonah. In Elfin Cove, all of the residents rely on fishing, either directly or indirectly, for their livelihoods. Processors in Sitka and Yakutat create jobs for more than 300 people. And, a number of small processors provide much needed employment opportunities for Juneau and Gustavus residents.

PARK RESOURCES

There is no evidence to suggest that fishing poses a threat to the Park resources. In fact, area fisheries stocks are returning at record high levels!

Most of the species targeted by fishermen in the Park are not native to Glacier Bay or the surrounding waters. There are no chinook salmon spawning streams in Glacier Bay, and halibut spawn in deep water far offshore. Some crab stocks may spawn within GBNP. However, crab larva are broadly distributed by water currents making it difficult to trace the origin of stocks caught in park waters.

In addition, many of the salmon harvested in the park are produced by southeast Alaska hatcheries, which are funded, in large part, by commercial fishermen.

Most fisheries do not coincide with the migration of humpback whales through GBNP, and fishermen do not harvest species that humpbacks feed on. Furthermore, studies conducted by the National Marine Fisheries Service (NMFS) show that local fishing vessel operations do not harm whales or alter their behavior. In fact, the data indicates that feeding humpback whales "apparently largely ignore the slowly moving vessels."

PARK VALUES

National Parks tout such values as healthy habitat, robust populations of fish and wildlife, and opportunities for recreation and solitude. Fishing has been an integral part of the cultural fabric of Glacier Bay for more than 100 years, and each of these "values" has endured. Congress identified Glacier Bay as an area worthy of preserving for future generations due to its unique and diverse character. Fishermen not only recognize the importance of preserving this natural wonder, but are proud to be a part of it.

The commercial fisheries of GBNP are composed of hundreds of family operated businesses, and it is not unusual to find several generations of a family active in the industry. Many children of fishing families grow up on the boat, learning a skill as well as putting money into the bank for college. The fishing lifestyle provides many parents the opportunity to enjoy quality time on a daily basis with their youngsters. The families that our small rural communities are built upon are hard-working people who have no desire to move or collect unemployment or welfare. These families, their lifestyle, and their fisheries, which provide food for our nation and the world, are at risk. Not the Park or its values, and certainly not the visitors who tour the Park.

It's difficult for fishermen to imagine they're at odds with Park values...

Commercial fishing enhances the visitor experience in GBNP. Curious tourists often approach fishermen in order to get a first hand look at their operations and a sense of this unique lifestyle. Many people report feeling "safer" knowing commercial fishermen are nearby, particularly in foul weather. Over the years, many park visitors have received crucial assistance from fishermen.

There is no denying that Alaska is different than the Lower 48. Natural resources are unparalleled, and lifestyles are inextricably linked to the health of the resource. Southeast fishermen take pains to protect and preserve the integrity of the resource upon which they depend, as proven by a documented record of activism. It is difficult for fishermen to imagine that they could be at odds with park values, as they see no difference between protecting the Park and their continued existence--one is simply not possible without the other.

OVERVIEW

- *Commercial fishing has occurred in southeast Alaska for more than 100 years and predates the declaration of Glacier Bay as a National Monument (1925) and a National Park (1980).*

- *Glacier Bay National Park encompasses 500,000 marine acres, and commercial fisheries are conducted in most Park waters.*

- *The traditional fisheries of GBNP are particularly important to nearby fishing communities whose subsistence users, commercial fishermen, and processors depend on harvest from GBNP.*

- *The commercial fisheries which are conducted within GBNP waters are trolling, longlining, crabbing, and seining.*

- *Principal harvest species include salmon, halibut, and crab.*

- *There is no evidence to suggest commercial fishing harms the ecosystem within GBNP. Populations of salmon, halibut, and crab harvested in these waters have remained stable and healthy under current management practices. The marine environment is pristine.*

- *Residents of northern southeast Alaskan communities fish 678 troll permits, 39 seine permits, and 195 halibut licenses.*

- *GBNP fisheries contribute an estimated $10.5 million annually to the southeast economy.*

- *In 1986, approximately 2 million pounds of seafood were harvested from GBNP waters.*

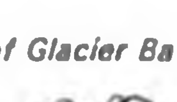
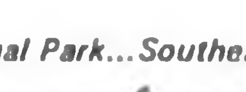
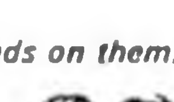
- *An average of 500,000 pounds of halibut are harvested annually in GBNP.*

- *In 1986, seiners harvested an estimated 260,000 chum salmon in Excursion Inlet.*

- *The estimated ex-vessel value for all troll-caught salmon from GBNP in 1986 was nearly $1 million. The halibut harvest garnered an additional 600K for Southeast residents.*

- *In 1986, the gross value of dungeness crab harvested in Park waters was $447,700. The value to the eight small vessels fishing in Glacier Bay proper was $200,000, or about $25,000 per boat.*

Support the fishermen of Glacier Bay National Park...Southeast depends on them!

Alaska Trollers Association, 130 Seward St. #505, Juneau, AK 99801, (907)586-9400; July 1992

SENATE COMMITTEE REPORT

DATE: 4/22/95 FURTHER:

DATE TURNED INTO OFFICE: 5-3-95

Resources Committee considered CS FOR HOUSE JOINT RESOLUTION NO. 43(FSH)

Relating to commercial fishing and subsistence use in Glacier Bay National Park.

and recommends:

| | be replaced with _____ CS ____________________(_______)

| | adopt previous _____ CS ____________________(_______)

| | attached amendment(s)

| | adopt Letter of Intent by ________________ Committee

| | further referral to the ________________ Committee

Senate Bill:
| | same title
| | new title

House Bill:
| | same title
| | technical change
| | new: SCR* _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
[signature]	✓	[signature]	✓		
		Pearce	✓		
CHAIR: [signature]	✓				

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
F+G	4/20	✓	

| | APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

Alaska State Legislature

House of Representatives
Special Committee on Fisheries

HJR 43 SPONSOR STATEMENT

"FISHING AND SUBSISTENCE IN GLACIER BAY"

This resolution has been introduced by the House Special Committee on Fisheries in response to concerns expressed by Southeast commercial fishermen and subsistence users.

Glacier Bay has been a National Monument since 1925. Congress created the Glacier Bay National Park as part of ANILCA in 1980. In 1990, environmental groups sued the National Park Service for, among other things, allowing commercial and subsistence fishing within Glacier Bay National Park. In 1991 the National Park Service promulgated draft regulations that would phase out commercial fishing in and around Glacier Bay within seven years, and completely prohibit subsistence fishing.

Last year, a federal judge ruled that ANILCA did not prohibit commercial fishing in Glacier Bay National Park, but that ruling has since been appealed to the Ninth Circuit Court of Appeals.

Elimination of the commercial and subsistence fisheries in the vast area contained in the Glacier Bay National Park would significantly harm the coastal communities of Northern Southeast. Both fisheries have utilized this area long before park designation. Also, if the area were closed to commercial fishing, other fisheries in Southeast would be harmed from increased pressure by those fishermen displaced by a closure of Glacier Bay waters.

Room 134, State Capitol, Juneau, Alaska 99801-1182 (907) 465-4230 or 465-2487

STATE OF ALASKA

THE LEGISLATURE

1990

Source

(CSHJR 32 Res)

Legislative Resolve No.

39

Relating to subsistence use and commercial fishing in Glacier Bay National Park.

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

WHEREAS the National Park Service is currently addressing the issue of subsistence use and commercial fishing in Glacier Bay National Park (Park) and is considering the status of subsistence use and commercial fishing in the park; and

WHEREAS subsistence use and commercial fishing have occurred in the Park since before it was established as a national monument in 1925 up to the present day; and

WHEREAS the National Park Service currently does not recognize the right of residents of Hoonah and other local communities to use the area now included in the Park for subsistence use, as their ancestors had done for generations; and

WHEREAS the prohibition of subsistence use and commercial fishing in the Park would have disastrous and widespread economic and social consequences for fishers of northern Southeast Alaska and the communities in which they reside; and

WHEREAS the continued subsistence and commercial use of fisheries resources within the navigable waters of the Park is desirable and is environmentally compatible with the purposes of the Park; and

WHEREAS the harvest of fisheries resources in the Park is conservatively managed by the Alaska Board of Fisheries and the Alaska Department of Fish and Game to promote the sustained health of the fish stocks; and

WHEREAS migratory species of fish that do not originate in the Park constitute the majority of the fish harvested within the

Exhibit 2

Park; a significant portion of the salmon harvested in the Park is the result of salmon enhancement and rehabilitation efforts by the State of Alaska, private nonprofit aquaculture associations, and hatcheries in Washington, Oregon, and British Columbia; and

WHEREAS the National Park Service must administer the Park subject to existing rights, statutes, and regulations; and

WHEREAS National Park Service regulations specifically provide for commercial sport fishing activities and for the use of large tour ships within the Park; and

WHEREAS the State of Alaska has a claim to ownership of the submerged lands and navigable waters of the Park; and

WHEREAS the State of Alaska exercises management authority over natural resources of the Park, provided that the state does not interfere with the purposes for which the Park and wilderness areas within the Park were established; and

WHEREAS issues relating to state and federal jurisdiction in the Park have not been resolved; and

WHEREAS subsistence use and commercial fishing in the Park do not threaten Park resources, visitor enjoyment of Park resources, or whale habitat in the Park;

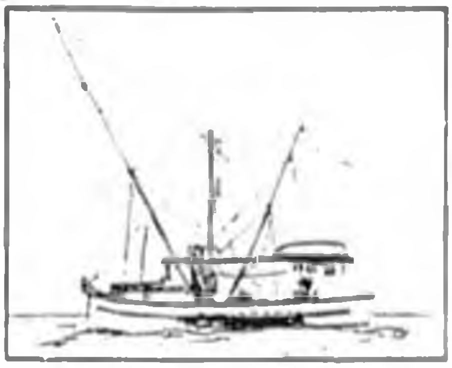
BE IT RESOLVED that the Alaska State Legislature respectfully requests the National Park Service to work with the state, other federal agencies, and affected parties to study the resources in Glacier Bay National Park and the effect of subsistence use, sport and commercial fishing, and tourism on these resources; and be it

FURTHER RESOLVED that the National Park Service proceed expeditiously to amend its regulations in order to

(1) allow commercial fishing under the laws of the State of Alaska within the nonwilderness areas of the park; and

(2) expressly provide for subsistence uses in the Park.

COPIES of this resolution shall be sent to the Honorable George Bush, President of the United States; the Honorable Manuel Lujan, Jr., Secretary of the U.S. Department of the Interior; James M. Ridenour, Director, National Park Service, U.S. Department of the Interior; Boyd Evison, Alaska Regional Director, National Park Service, U.S. Department of the Interior; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.



Alaska Trollers Association

130 Seward St., No. 505
Juneau, Alaska 99801
(907) 586-9400
(907) 586-4473 Fax

March 22, 1995

Representative Alan Austerman
Alaska State Legislature
State Capitol (MS 3100)
Juneau, AK 99811

Dear Representative Austerman:

The Alaska Trollers Association (ATA) requests your assistance on an issue of critical concern to commercial and subsistence fishermen in Southeast Alaska.

In 1925, Glacier Bay was designated a National Monument. In 1979, Glacier Bay and the surrounding area became a National Park. Fishermen supported both designations, because they were promised that all traditional commercial and subsistence activity would continue.

In 1990, the Alaska Wildlife Alliance (AWA) and American Wildlands sued the National Park Service for allowing subsistence and commercial fishing, which they believe is illegal under ANILCA. The judge ruled against AWA last year and the case has been appealed to the Ninth Circuit court.

Also in 1990, the National Park Service made public draft regulations that would immediately stop subsistence fishing and phase out commercial fishing within seven years in Glacier Bay National Park (Park). In response to the NPS draft regulations, the Alaska legislature passed the attached resolution opposing restrictions on Park fisheries. Final regulations are due out any time.

In past years, Representative Don Young and Senator Frank Murkowski have each submitted legislation to secure fisheries in the Park. They have not submitted bills this session.

RECEIVED
25 1995

In order to reaffirm the legislature's support of Park fisheries, ATA requests that you develop a resolution similar to that passed by the legislature in 1990.

Your assistance on this matter will be greatly appreciated. I look forward to your response and hope you won't hesitate to call if I can provide additional information.

Sincerely,

Dale A. Kelley

Dale A. Kelley
Executive Director

HJR

44

STATE OF ALASKA
1995 LEGISLATIVE SESSION

No. 1
Bill Version: HJR 44
(H) Publish Date: 4/27/95

FISCAL NOTE

REQUEST:
Revision Date: ______ Affected Agency: ______
Title: Proposing postage stamps honoring Alaska salmon and centuries of ... BRU: ______
Sponsor: Rep. Kim Elton Components: ______
Requestor: ______

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 2001
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						
REVENUE						

FUNDING: (THOUSANDS OF DOLLARS)

General Fund	0.0	0.0	0.0	0.0	0.0	0.0
Federal Fund						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

Full-Time						
Part-Time						
Temporary						

Estimated FY 95 Impact: none

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

No fiscal impact.

Prepared By: Fisheries Committee Date: 4/25/95
Division: Phone:

Approved By: Representative Alan Austerman, Chair
Agency: House Special Committee Date: 4/25/95

DISTRIBUTION (BY PREPARER
LEGISLATIVE FINANCE
LEGISLATIVE SPONSOR

REQUESTOR
OFFICE OF MANAGEMENT AND BUDGET
AGENCY(IES)

COMMITTEE COPY

SENATE COMMITTEE REPORT

DATE: 4/29/95 FURTHER:

DATE TURNED INTO OFFICE: 5-3-95

Resources Committee considered HOUSE JOINT RESOLUTION NO. 44

Proposing postage stamps honoring wild Alaska salmon and centuries of continued use of wild Alaska salmon for subsistence, sport, and commercial fish harvesters.

and recommends:

[ ] be replaced with ____ CS ____________________ (______)

[ ] adopt previous ____ CS ____________________ (______)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by ______________ Committee

[ ] further referral to the ______________ Committee

Senate Bill:
[ ] same title
[ ] new title
House Bill:
[ ] same title
[ ] technical change
[ ] new: SCR* ____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
	✓				
	✓				
CHAIR: Loren A. Leman	✓				

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
FISH CMTE	4/27	✓	

[ ] APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

REPRESENTATIVE KIM ELTON

SPONSOR STATEMENT

H J R 44

Proposing postage stamps honoring wild Alaska salmon and centuries of continued use of wild Alaska salmon for subsistence, sport, and commercial fish harvesters.

This resolution proposes postage stamps which features Alaska salmon. Through this legislation, the State of Alaska requests the United States postmaster to issue a series of five stamps, each depicting one of Alaska's salmon species.

This postage stamp series will focus national attention on Alaska's thriving and healthy salmon fishery. This region boasts a long tradition of subsistence, commercial, and sport use of the salmon. The salmon fishery is a key element in the state's economy and a large draw to the sport fish and tourism industries.

Passage of this resolution will demonstrate the State of Alaska's support for this postage stamp series.

The more awareness of wild Alaska salmon we create, the easier it is to educate those outside Alaska about one of Alaska's most important, growing and economically-viable resources. At a time when too many Americans believe wild salmon are endangered, and erroneously believe that Atlantic salmon are a wild and natural consumer product, a postage stamp depicting Alaska's salmon species will help capture the interest of Americans, and others. It makes it easier to educate them about a resource that contributes hundred of millions of dollars each year to Alaska and Alaskans.

ALASKA HOUSE OF REPRESENTATIVES
STATE CAPITOL • JUNEAU, ALASKA 99801-1182 • (907) 465-4947 • FAX 465-2108

HJR

54

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 3/25/96

FURTHER:

DATE TURNED INTO OFFICE: 4-10-96

The Resources Committee considered CS FOR HOUSE JOINT RESOLUTION NO. 54(RES) am

Encouraging the lessees of Alaska's vast North Slope natural gas reserves to reach agreement to market gas.

and recommends:

[✓] be replaced with SEN CS S HJR (RES)

[ ] adopt previous ____ CS ________ (____)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by ________ Committee

[ ] further referral to the ________ Committee

Senate Bill:
[ ] same title
[ ] new title

House Bill:
[✓] same title
[ ] technical title
[ ] new: SCR* ____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
Lyman Hoffman					
[illegible]	✓				
Robin L. Taylor	✓				
[illegible]	✓				
[illegible]	✓				
Rick Halford	✓				
CHAIR: [illegible]	✓	CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):* 10 CS [illegible]

Department	Date	Zero	Fiscal
DNR	[illegible]	✓	

[ ] **APPROPRIATION** -- no fiscal note

*Include fiscal notes accompanying Governor's bill

FAX MEMORANDUM

Adams, Morgenthaler and Company, Inc.

3333 Denali, Suite 100 Anchorage, AK 99503-4088

(907) 279-0431
FAX (907) 272-5593
e-mail amc@alaska.net

FAX:	465-3810 *and* 465-3799		
DATE:	04/03/96	**JOB NAME:**	Alaska NS Gas Line
TO:	Alaska Legislature	**AMC JOB #:**	P0571
ATTN:	Sen. Loren Leman *and* Rep. Gene Kubina	**SUBJECT:**	Gas Line Model
FROM:	Dave Adams Dave		

Number of Pages: 3

Dear Sen. Leman and Rep. Kubina:

Thanks to you I received the actual financial model used by the Department of Revenue to model the gas line. As you know, the model showed that ***our*** gas was too expensive for the market. Unfortunately the model simultaneously used three assumptions that were too high.

Attached is a copy of the model as I received it. Also attached is a reformatted copy with new assumptions along the lines of what Yukon Pacific Corp. has been trying to tell us.

As you can see, the original assumptions resulted in a "break even price" of $4.99, which is well above market. Using the assumptions outlined in my February 21 letter to you, the ***price drops to under $3.00***! Using slightly more pessimistic numbers, the gas price still comes in ***near $3.00***! In a $3.50 world, that's important!

It looks like ***our*** gas is viable in the market and should be produced without delay.

Perhaps the other projects being pursued by the companies sitting on ***our*** gas will yield more to the bottom line for ***their*** shareholders, but they will return *zero* to Alaskans. Our ***only*** stake is in our North Slope gas. The oil companies owe their loyalty to their shareholders, to be sure. But our government owes its loyalty to Alaskans. Who's in charge here? Who's interests take priority?

Please take assertive measures to get the Knowles Administration moving on this important issue. It was the Administration's model that the Commissioner used to show the gas line was not viable. The same model should have the credibility to show that the line indeed is viable.

What are we waiting for?

CC: Jeff Lowenfels, YPC

attachments

ps: I will e-mail the spreadsheet to you so you can play your own "what ifs".

Gasline ROR Model

RECEIVED
APR 02 1996
Adams, Morgenthaler and Company
2333 Denali, Suite 100
Anchorage, Alaska 99503

Original Ver.

operating cost	0.5
capital cost	15000
% non-ship	0.733333
years	25
real equity ror	5
nom equity ror	12.903
nominal debt ror	10.903
tax gross-up factor	0.6081
percent equity	0.25
percent debt	0.75
btu adj	1.15
ret on capital dur constr	1101

year	gas vol (bcf/d)	gas vol (bcf/y)	oper cost	cepr	undepr amt - prop tax	prop tax	depr - (for return)	undepr amt - return	ret on base (all tax mar)	inc tax allow	interest	sev tax	cost of service	disc factor	disc cost	disc vol
0	0.4	146	73	600	15000	220	194	4851	626	437	1432	7	3395	0.941	3195	137
1	0.8	292	146	600	14400	211	194	4657	601	419	1432	13	3423	0.834	2853	243
2	1.2	438	219	600	13800	202	194	4463	576	402	1432	20	3451	0.738	2548	323
3	1.6	584	292	600	13200	194	194	4269	551	385	1432	26	3480	0.654	2275	382
4	2	730	365	600	12600	185	194	4075	526	367	1432	33	3508	0.579	2032	423
5	2	730	365	600	12000	176	194	3881	501	350	1432	33	3456	0.513	1773	374
6	2	730	365	600	11400	167	194	3687	476	332	1432	33	3405	0.454	1547	332
7	2	730	365	600	10800	158	194	3493	451	315	1432	33	3354	0.402	1350	294
8	2	730	365	600	10200	150	194	3299	426	297	1432	33	3303	0.356	1177	260
9	2	730	365	600	9600	141	194	3105	401	280	1432	33	3251	0.316	1026	230
10	2	730	365	600	9000	132	194	2911	376	262	1432	33	3200	0.280	895	204
11	2	730	365	600	8400	123	194	2716	351	245	1432	33	3149	0.248	780	181
12	2	730	365	600	7800	114	194	2522	325	227	1432	33	3097	0.219	679	160
13	2	730	365	600	7200	106	194	2328	300	210	1432	33	3046	0.194	592	142
14	2	730	365	600	6600	97	194	2134	275	192	1432	33	2995	0.172	515	126
15	2	730	365	600	6000	88	194	1940	250	175	1432	33	2943	0.152	449	111
16	2	730	365	600	5400	79	194	1746	225	157	1432	33	2892	0.135	390	99
17	2	730	365	600	4800	70	194	1552	200	140	1432	33	2841	0.120	340	87
18	2	730	365	600	4200	62	194	1358	175	122	1432	33	2789	0.106	295	77
19	2	730	365	600	3600	53	194	1164	150	105	1432	33	2738	0.094	257	68
20	2	730	365	600	3000	44	194	970	125	87	1432	33	2687	0.083	223	61
21	2	730	365	600	2400	35	194	776	100	70	1432	33	2635	0.074	194	54
22	2	730	365	600	1800	26	194	582	75	52	1432	33	2584	0.065	168	48
23	2	730	365	600	1200	18	194	388	50	35	1432	33	2533	0.058	146	42
24	2	730	365	600	600	9	194	194	25	17	1432	33	2481	0.051	127	37
													total		25828	4496

levelized excl amt	5.74
btu adj	1.15
break even price	4.99

Gasline ROR Model

printed 4/3/90

model created by Roger Marks, State Petroleum Economist
format changes by Dave Adams (no formulas changed)
capital cost/ROR/leverage changes made to reflect probable gas price

operating cost $	0.60	/mcf (O&M costs)
capital cost $	13,500	millions
% non-ship	73.33%	(subject to property taxes)
years	25	useful life
real equity ror	2 %	after inflation and taxes
nom equity ror	8.0645 %	pre-tax and pre-inflation, assumes inflation = 3 and taxes are 38%
nominal debt ror	8.0645 %	assumes 2% below equity ROR
tax gross-up factor	0.6981	see Appendix B page 1
percent equity	10%	
percent debt	90%	
btu adj	1.15	
ret on capital dur constr $	236	millions

year	gas vol (bcf/d)	gas vol (bcf/y)	oper cost	depr	undepr amt - prop tax	prop tax	depr - (for return)	undepr amt - return	ret on base (aft tax mar)	inc tax allow	interest	sev tax	cost of service	disc factor	disc cost	disc vol (bcf/y)
0	0.4	146	$ 73	$ 540	$ 13,500	$ 198	$ 63	$ 1,586	$ 128	$ 89	$ 1,011	7	$ 2,045	0.962	$ 1,968	140
1	0.8	292	146	540	12960	190	63	1523	123	86	1011	13	2108	0.890	1877	260
2	1.2	438	219	540	12420	182	63	1459	118	82	1011	20	2171	0.824	1789	361
3	1.6	584	292	540	11880	174	63	1396	113	79	1011	26	2234	0.762	1703	445
4	2.0	730	365	540	11340	166	63	1332	107	75	1011	33	2297	0.705	1620	515
5	2.0	730	365	540	10800	158	63	1269	102	71	1011	33	2281	0.653	1489	477
6	2.0	730	365	540	10260	150	63	1205	97	68	1011	33	2264	0.604	1368	441
7	2.0	730	365	540	9720	143	63	1142	92	64	1011	33	2247	0.559	1256	408
8	2.0	730	365	540	9180	135	63	1078	87	61	1011	33	2231	0.517	1154	378
9	2.0	730	365	540	8640	127	63	1015	82	57	1011	33	2214	0.479	1060	349
10	2.0	730	365	540	8100	119	63	952	77	54	1011	33	2198	0.443	973	323
11	2.0	730	365	540	7560	111	63	888	72	50	1011	33	2181	0.410	894	299
12	2.0	730	365	540	7020	103	63	825	67	46	1011	33	2164	0.379	821	277
13	2.0	730	365	540	6480	[illegible]	63	761	61	43	1011	33	2148	0.351	754	256
14	2.0	730	365	540	5940	87	63	698	56	39	1011	33	2131	0.325	692	237
15	2.0	730	365	540	5400	79	63	634	51	36	1011	33	2114	0.301	636	219
16	2.0	730	365	540	4860	71	63	571	46	32	1011	33	[illegible]	0.278	583	203
17	2.0	730	365	540	4320	63	63	508	41	29	1011	33	[illegible]	0.257	538	188
18	2.0	730	365	540	[illegible]	55	63	444	[illegible]	25	1011	33	2065	0.238	492	174
19	2.0	730	365	540	[illegible]	48	63	381	31	21	1011	33	2048	0.220	451	161
20	2.0	730	365	540	2700	40	63	317	26	18	1011	33	2031	0.204	414	149
21	2.0	730	365	540	2160	32	63	254	20	14	1011	33	2015	0.189	380	138
22	2.0	730	365	540	1620	24	63	190	15	11	1011	33	1998	0.175	349	127
23	2.0	730	365	540	1080	16	63	127	10	7	1011	33	1982	[illegible]	320	118
24	2.0	730	365	540	540	8	63	63	5	4	1011	33	1965	0.150	294	109
													total		$ 23,872	6753

levelized mcf amt		3.54
btu adj		1.15
break-even price	$	3.07

pattern was much the same with little change month on month but a 9.6% rise year on year. January gas revenues were estimated to have risen by £0.54m ($0.83m) a day over December to £21.56m/d and were 7% up on January last year.

■ Turkmenistan-Pakistan/Pipelines

Gazprom 'joining Unocal line'

Reports in official Turkmen media this week said Russian gas giant Gazprom was planning to join the project led by US Unocal to build an export gas pipeline from Turkmenistan to Pakistan via Afghanistan *(IGR 293/16)*. Top officials from both firms were said to have reached agreement for Gazprom to join the current 60/40 partnership between Unocal and Delta oil company of Saudi Arabia planning to build the line. However, a Unocal official said talks remained preliminary and would continue when a Unocal team went to Moscow for further negotiations with Gazprom and other Russian oil and gas firms.

Meanwhile, Afghanistan signed an agreement with Argentina's Bridas on a rival project also aimed at shipping Turkmen gas via Afghan territory to Pakistan. Bridas signed on behalf of TAP Pipelines International, a group also including Turkmen, Afghan and Pakistani interests.

■ Turkmenistan-Japan/LNG-Pipelines

Turkmen LNG to Japan flagged

Turkmenistan could eventually export some 10m tonnes (t) of LNG to Japan in addition to gas shipped via a planned natural gas pipeline to Japan, according to Turkmen oil and gas minister Esenov Aman Geldy. If the port of Turkmenbashi on the Caspian Sea coast was revamped, Turkmen gas could be liquefied and shipped via the Read Sea. A feasibility study on the line by Japan's Mitsubishi, China's National Petroleum Corp and Exxon of the US was due for completion in September, said Esenov. If the 6,250 km project, costed at an estimated $9.5bn, was carried out, initial Turkmen supplies to Japan would not be less than 25 Bcm/yr. The ministry earlier said it hoped four-year construction of the line would start in 2000.

■ Russia/Companies

Gazprom/Lukoil 'in battle'

Gas giant Gazprom and leading Russian oil major Lukoil are in a battle to control the petroleum products market in the Astrakhan region of southern Russia in a struggle analysts believe could spread elsewhere in the country, Interfax news agency reported recently. Regional official said Gazprom last year started building petrol stations in Astrakhan and neighbouring Kalmykia. Previously only Lukoil had sold products through both wholesale and retail outlets while Gazprom unit Astrakhangazprom limited itself to sales via wholesalers. The new Gazprom move forced Lukoil to cut petrol and diesel prices by an average R100 ($0.021)/litre. As well as gas, sulphur and chemicals, the Gazprom unit produced about 1.5m tonnes/yr of petroleum products, said Interfax. This year it planned to boost petrol and diesel sales to 0.6mt and, according to company chief Viktor Shchugolyev, open 12 new petrol stations.

■ Russia-Azerbaijan/Pipelines

Gasline blast near Chechnya

A gas pipeline section in Russia's Dagestan near the Caspian Sea exploded last Sunday (10 March), severing supplies for heating and cooking in nine out of 39 Dagestani regions, according to the Russian emergency situations ministry. A half metre section of the 1020 millimetre (40-inch) diameter line linking Mozdok in Russia's North Ossetia with Azerbaijan was severely damaged, it said. The explosion was latest of a number in the region where separatist Chechen rebels have been attacking energy infrastructure. Both the emergencies ministry and interior ministry declined to comment on cause of the weekend blast.

Late last month supplies via a line linking Azerbaijan and Makhachkala and other towns and villages in Dagestan were resumed after by a pipeline rupture in Russia's Chechnya. Itar-Tass news agency quoted Dagestangazprom gas company as saying the line had been ruptured near the village of Shelkovskaya in Chechnya, 3 km from the Dagestan border, by an act of sabotage.

■ Russia/Pipelines

Gaslines hit by blasts

Continuing explosion and fire problems on Russian gas pipelines, apart from insurgency-linked sabotage *(see separate story)*, were underlined by recent incidents affecting Chelyabinsk, Kaliningrad and Sakhalin regions. A stretch of the Bukhara-Urals line in Chelyabinsk was damaged by a blast and fire in late February, according to the regional civil defence, Ketchikan Daily News

Antacid a must

By LEW M. WILLIAMS, JR.
For the Daily News

Gov. Tony Knowles ... asked four of his cabinet officers to review how the state can move ahead on marketing North Slope natural gas.

Rep. Gene Kubina, D-Valdez, has introduced a resolutio. "encouraging the lessees of Alaska's vast North Slope natural gas reserves to reach agreement to market gas."

The state House Special Committee on Oil and Gas chaired by Rep. Norman Rokeberg, R-Anchorage, and the House Resources Committee chaired by Rep. Bill Williams, D-Saxman, held hearings Thursday and Friday to seek information about what is blocking marketing of Alaska natural gas.

Jeff Lowenfels, president of Yukon Pacific Corp., which wants to transport natural gas from Prudhoe Bay to Valdez for sale to Pacific Rim markets, testified Thursday. Representatives of the oil companies testified Friday.

What's holding up building a trans-Alaska natural gas pipeline and marketing another Alaska resource is simple. The major oil companies can't agree among themselves. The solution to that argument is easy if the state administration has the guts to do it — order what is called integration of company rights in the Prudhoe Bay oil pool so that no oil company or companies has an unfair advantage over others.

That integration can be done by the Alaska Oil and Gas Conservation Commission. But first there has to be agreement among the three commissioners, David Johnston, David Norton and Tuckerman Babcock. The commissioners currently disagree on how to proceed.

Johnston, the chairman, was appointed to the commission by Gov. Steve Cowper and reappointed by Gov. Walter Hickel. Norton is a new appointee. When Gov. Tony Knowles appointed Norton, a City of Anchorage staffer when Knowles was Anchorage mayor, the governor abandoned tradition. He failed to reappoint longtime commission member Russell Douglas. In the past, commissioners were reappointed by governors to assure continuity in a highly technical field. For the first time no commission member has oil industry expertise.

Johnston and Norton want to hold more hearings and have set one for April 11. The oil companies will be expected to explain whether the current agreement among them is impeding oil and gas recovery and wasting the resource; and whether the commission should order integration.

Babcock wants to order integration immediately because the oil companies have been dragging their feet, requesting hearing postponement after hearing postponement.

* * * * * * * *

Yukon Pacific is frustrated. It has all of the permits it needs to proceed with constructing a multi-billion dollar, 800-mile gas line from Prudhoe Bay to Valdez. Construction will take seven years. It has commitments from South Korea and Taiwan to purchase the gas. Lowenfels says that the Japanese won't commit until the oil companies and the state agree on marketing the gas.

Agree? Last we heard the oil and gas on the North Slope belong to the people of Alaska. Eleven oil companies have contracts to remove the oil and sell it for a price to benefit Alaskans and make the companies a profit.

What happened is that in setting up a unitizing agreement (which says what each company owns in Prudhoe Bay) the oil companies created a problem unique in Alaska and anywhere else in the world. They did it with the state's approval, which gives the state some obligation to untangle the mess.

* * * * * * * *

The time was 1973. There was an oil embargo creating a shortage in the United States. The oil companies were frantic to get oil out of Prudhoe Bay, as were all Alaskans. The state faced bankruptcy and needed the revenue. Oil companies couldn't agree on the value of gas from the field so they put gas value aside until later. "Later" showed up in the 1990s when a push began to market Alaska natural gas.

Failure to agree on the price of natural gas liquids exchanged among themselves is what blocks marketing of Alaska natural gas. The dispute is over a relatively small 40,000 barrels of natural gas liquids that move down the oil pipeline each day with the more than million barrels of oil. The dispute is not over the millions of cubic feet of gas envisioned to go through a natural gas pipeline.

Under the 1973 unitizing agreement, British Petroleum (BP) was given the right to 51 percent of the oil in Prudhoe Bay. Arco and Exxon were given 22 percent each and the other nine developers, 5 percent. Conversely, Arco and Exxon own the right to 84 percent of the natural gas (42 percent each) and BP only 14 percent. The other 2 percent goes to the other nine companies. The conflict is obvious over whether to market the natural gas or reinsert it in the ground to force out more oil. But the real conflict is over setting a value on the gas

APR-08-1996 13:36 93% P.02

liquids shared by the companies since oil production began in 1978.

The unitizing agreement runs until 2005 unless the state Oil and Gas Conservation Commission forces agreement by integrating ownership. Naturally, the oil companies would prefer to reach agreement among themselves, fearing how the state commission would assign ownership.

Gov. Knowles and his Department of Natural Resources oppose immediate integration. If the commission agrees to enforced integration it could be enacted by Dec. 31. There is little chance of that because Knowles has been partial toward the oil companies. They want more time to negotiate among themselves, like until 2005. They probably will get it, especially after Babcock's term runs out December 31 and Knowles appoints another commissioner. That means more delay in marketing Alaska natural gas.

Expecting the oil companies to reach agreement among themselves is unrealistic. Each side has filed conflicting petitions with the Alaska Public Utilities Commission and with the Oil and Gas Conservation Commission. Each has made diametrically opposite appeals to the Department of Natural Resources. BP is suing in Alaska Superior Court for a declaratory judgment in its favor. Exxon and Arco responded by suing BP. Once an issue is in court, resolution is a long time down the pipeline, meaning there is no light at the end of the pipeline for Alaskans who want to benefit from marketing Alaska natural gas. (Excuse the cliches. We have to insert something to make an issue interesting that is otherwise as boring as it is serious.)

****

As the result of this standoff, the oil companies have stated "There will be no major gas sale before 2005 unless owners agree otherwise."

We could add, "that unless Alaskans become angry and force the Oil and Gas Conservation Commission (and the governor) to act."

It is reported that oil company officials and their lawyers have been working in Houston for more than 2 months on a program that they estimate may take more than 18 months. They are trying to reach agreement before they face enforced integration.

They have an incentive to agree among themselves because the Oil and Gas Conservation Commission has run out of patience and probably won't postpone its April 11 hearing, not after accumulating 23,000 pages in its investigation of the problem. There are calls for some investigative journalism to determine to what extent the oil companies are ripping off Alaskans.

In the meantime, oil company representatives are deflecting public attention from the real problem by saying the state has to get its financial house in order before it is economically feasible to market Alaska natural gas. The don't acknowledge that selling Alaska gas will create revenue to close the state's fiscal gap. They also distract from the real issue by calling for more favorable legislation from the governor and the legislature which, in effect, mean less royalty to the state for marketing Alaska's most valuable natural resource — oil.

****

Marketing natural gas also can help Alaskans reduce their cost of government and their living standards by making natural gas available to villages and towns throughout the state. That will reduce the energy subsidy now paid to villages to offset the high cost of shipping in oil for heat and energy.

Alaskans would use only a small amount of the natural gas which can be produced at Prudhoe Bay. Most of it would be sold overseas, meaning Japan, Korea, Taiwan and other purchasers will be subsidizing Alaska energy by making the pipeline feasible.

Another important factor requiring some solution to the oil companies' stalemate is that within a few years oil production will be allowed on the coastal plain of the Arctic National Wildlife Refuge.

ANWR development will be allowed if our congressional delegation convinces President Clinton to reverse his stand against ANWR development, if Clinton fails in his re-election bid, or if Alaska's powerful Sen. Ted Stevens is re-elected and becomes chairman of the Senate Appropriations Committee. The later is the most likely scenario at this time.

With that ANWR oil and gas potential added to the Prudhoe Bay production, Prudhoe gas has to be marketed to make way for ANWR gas.

At the same time all of this goes on, the oil companies are hedging their bets, anticipating no end to their dispute. They are working on natural gas projects elsewhere in the world to get gas on line before 2005. BP has three new prospects it is working on in Southeast Asia, near New Guinea. Exxon is working on six gas projects in the Middle East and Russia.

If any come on-line, the oil companies will no longer be interested in marketing Alaska gas. They will leave Alaskans when the oil is gone with a "belly" full of gas and no "antacid."

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM April 10, 1996

SUBJECT: Draft SCS CSHJR 54(RES), relating to a gas transmission line (Work Order No. 9-LS0715\N)

TO: Senator Loren Leman, Chair
Senate Resources Committee

FROM: Jack Chenoweth
Legislative Counsel

This draft committee substitute breaks at least two legislative rules and gives other reason for drafting heartburn.

Joint resolutions are to be treated as bills. Uniform Rule 49(a)(5). Under that principle, arguably, establishment of the task force ought to be noted in the resolution title. However, that would necessitate a resolution title change. Changes in the title in the second house are usually accompanied by a concurrent resolution waiving appropriate Uniform Rules of the Legislature in order to permit the title change. In this case, you've not indicated that you want to treat with any of these matters, and I have ignored them.

Joint committees are to be established by concurrent resolution. Uniform Rule 21(b). Certain specifics about the joint committee should also be addressed in the resolution. Uniform Rule 21(c). This addition to HJR 54 does neither.

Other questions: How large the task force? Legislators only? Is provision being made for an appropriation for the task force's work? When, specifically, does the task force expire?

Unless someone presses hard on the noncompliance with the first matter, these are not failures or omissions of constitutional magnitude--only of noncompliance with the appropriate legislative rules. The press and public may call the handling of it into account, but the courts will not.

JBC:glc
96-220.glc

Enclosure

HJR54

TONY KNOWLES
GOVERNOR

P.O. Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 12, 1996

The Honorable Norman Rokeberg
Chair, House Oil and Gas Committee
Alaska State Legislature
State Capitol, Room 110
Juneau, AK 99811-1182

Dear Chairman Rokeberg:

As you may remember, several weeks ago I directed four members of my cabinet to assess the steps necessary to develop, transport, and market Alaska's enormous natural gas reserves. As this process continues, I have requested Department of Revenue Commissioner Condon to take the lead on behalf of my Administration.

House Joint Resolution 54 by Representative Gene Kubina has the support of my Administration because it will play a significant role in encouraging meaningful dialogue between the various parties.

A project of this magnitude would have a tremendous impact on the state's economy, providing many jobs and much needed state revenue. I urge your favorable consideration.

Sincerely,

Tony Knowles

Tony Knowles
Governor

 WORK DRAFT WORK DRAFT

9-LS0715\W
Chenoweth
2/12/96

CS FOR HOUSE JOINT RESOLUTION NO. 54( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES KUBINA, Green, Barnes, Navarre, Mackie, Grussendorf, Phillips, B.Davis, Willis, Sanders, Davies, Robinson, Rokeberg, Ogan

A RESOLUTION

Encouraging the lessees of Alaska's vast North Slope natural gas reserves to reach agreement to market gas, expressing the legislature's support for an Alaska North Slope (ANS) gas transmission pipeline, and requesting the President of the United States and the Governor of the State of Alaska to publicly support and take action that will help expedite the construction of that system.

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

WHEREAS Alaska has at least 26,000,000,000,000 cubic feet of natural gas reserves in the Prudhoe Bay field and perhaps two to three times that amount of potential natural gas reserves; and

WHEREAS, beginning in the period 2002 - 2005, there may be an increasing gap between supply and demand for natural gas in the Pacific Rim; and

WHEREAS market and economic studies indicate favorable conditions for the sale of liquefied natural gas (LNG) to these Pacific Rim markets; and

WHEREAS major permits for one possible pipeline route from the North Slope to Valdez have been completed; and

WHEREAS the sale of Alaska gas to Pacific Rim markets will improve the nation's trade imbalance without adversely affecting other industries or labor; and

WHEREAS the design, sourcing, and construction of a LNG project could infuse several billion dollars into the United States economy; and

WHEREAS the construction of such a pipeline would provide approximately 10,000 temporary construction jobs for two years and over 600 permanent private sector jobs in Alaska; and

WHEREAS the State of Alaska will earn substantial revenue each year from projected gas sales, which would help fill the state's fiscal gap; and

WHEREAS a gas pipeline across Alaska could make available environmentally friendly energy along the pipeline route and encourage development that will increase local employment and local tax revenue; and

WHEREAS the Alaska Municipal League's 1996 policy statement includes the following language: "The League, therefore, strongly encourages all potential participants in the project, including the State of Alaska, to immediately convene to develop a unified proposal to present to the Asian LNG buyers so that all Alaskans will directly benefit from this unique opportunity"; and

WHEREAS natural gas stored as a cryogenic liquid is an efficient and safe means of transporting large quantities of gas with no significant risk to the public; and

WHEREAS securing a market for Alaska North Slope (ANS) gas will be important; there is strong competition for Pacific Rim markets from competing projects in Malaysia, Australia, and other nations; and

WHEREAS Alaska faces competition from other projects and must, therefore, move to secure a place in Asian markets; and

WHEREAS Taiwanese and South Korean buyers have issued letters of intent to purchase ANS liquefied natural gas from Yukon Pacific Corporation; and

WHEREAS Japanese buyers must also commit to buying ANS LNG to make an Alaskan project feasible;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the North Slope natural gas lessees to intensify their efforts to establish satisfactory contractual relationships for transportation and sale of ANS gas to Pacific Rim purchasers as soon as economically possible; and be it

FURTHER RESOLVED that the State of Alaska respectfully requests the President of the United States to demonstrate national support for an ANS gas transmission project to Asian LNG buyers; and be it

FURTHER RESOLVED that the Governor is respectfully requested to

(1) assure the Asian LNG buyers that the state will provide continuity and stability in regards to North Slope natural gas supply, tax structure, and regulatory policy;

(2) continue support of the Joint Pipeline Office, which administers an innovative, efficient, and cost-effective permitting system; and

(3) meet with all parties to determine how the state can help facilitate the ANS gas transmission pipeline; and be it

FURTHER RESOLVED that the Alaska State Legislature strongly supports the construction of an ANS gas transmission pipeline and offers its assistance to the parties involved in order to speed completion of an ANS gas transmission project.

COPIES of this resolution shall be sent to the Honorable Bill Clinton, President of the United States; the Honorable Al Gore, Jr., Vice-President of the United States and President of the U.S. Senate; the Honorable Bruce Babbitt, Secretary of the Interior; the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress; to John Snow, Chairman and Chief Executive Officer, CSX Corp.; to Jeff Lowenfels, President, Yukon Pacific Corporation; to Mike Bowlin, Chairman and Chief Executive Officer, Atlantic Richfield Company, and J. K. "Ken" Thompson, President, ARCO Alaska, Inc.; to John Browne, Chief Executive Officer, British Petroleum, and John Morgan, President, B.P. Exploration (Alaska), Inc.; to Lee R. Raymond, Chairman and Chief Executive Officer, Exxon Corporation, and Jim Branch, Alaska Production Manager, Exxon Alaska; to Shigenobu Yamamoto, Consul General of Japan; to Byuung Hak Min, Consul General of the Republic of Korea; and to Jyhyuan Lo, Director General of the Republic of China.

When politics precedes price

The Natuna gas field's size and complexity makes it one of the industry's biggest challenges to date, say **Manuela Saragosa** and **Robert Corzine**

Plans to develop one of the world's largest natural gas fields in Indonesian waters off Borneo are evoking strong emo ons in the region and in the idustry.

To its supporters, the Natuna eld is a unique energy resource in te midst of the the world's fastest rowing economies. Its future reve ues are badly needed by Indonesia.

But critics say the plan to exploit ie reserves off Natuna, an island bout 600km north-east of Singa ore, will consume billions of dol ırs of investment and produce gas t costs well above current market rices.

The only point of agreement is at Natuna's size and complexity take its development one of the oil idustry's most challenging projects o date. The field is the largest ndeveloped hydrocarbon resource i south-east Asia, comparable in ize to Norway's Troll, western urope's largest gas field.

Total gas volumes are around 10,000bn cubic feet, or 6,000bn ubic metres. Only a quarter of this · useable, but even that would be nough to meet Japan's total natu al gas needs for 17 years.

Plans to develop it have been tudied since 1980. But in 1994 xxon the largest US oil company, nd Pertamina, Indonesia's state oil ompany, launched a joint partner hip to exploit the field, with the im of launching the eight-year con truction phase in 1997.

There is little doubt of the politi al will to develop Indonesia's natu al gas output, with the country's alance of payments suffering as oil roduction has declined. The Jak rta government has set up a series f high-powered committees to get he Natuna project moving, involv ng some 16 ministers.

Mr Jusuf Habibie, Indonesia's ambitious minister of research and technology, is chairman of the Natuna Project Execution Team, the most important of the committees. Its advisory team includes General Feisal Tanjung, the powerful armed forces chief.

"No one should underestimate the determination of those involved to make it work," says an industry analyst familiar with the project.

No big engineering contracts have yet been issued, although Pertamina officials say those companies which have invested in Indonesia or have a presence there will rank among the favourites. "If you don't fulfil this condition, you're not in," notes one western diplomat.

A leading role looks likely for Amec, the UK construction company which has been asked by Jakarta to organise an engineering consortium. Amec is already well established in Indonesia, working on a joint venture with PAL, the state-owned shipbuilder which is one of several "strategic" industries that Mr Habibie takes an interest in.

However, sceptics in the oil industry cast doubt on the viability of the Natuna project. In spite of its location in the centre of an energy-hungry region its development has proved troublesome.

The main problem is that 71 per cent of its contents is unwanted carbon dioxide, a "greenhouse gas" associated with global warming. Extracting and disposing of it in an environmentally acceptable way is technically difficult and contributes to the forecast development cost of more than $40bn, one of the most expensive gas projects ever undertaken.

Some industry observers say Pertamina and Exxon will need to get $4.50-$5 per million BTUs for Natuna gas - well above the prevailing price of $3-$3.70 for natural gas landed in Japan, the biggest energy markets in the region.

Natuna officials are reluctant to discuss pricing, and note that competitiveness can be measured in other ways. They believe that customers might be prepared to pay extra to secure supplies closer to home, rather than from potentially less stable Middle Eastern liquefied natural gas suppliers.

"We don't use the word 'premium'," says Mr Fritz Voigt, vice-president of Exxon's international gas division. "And we don't want a project that needs a premium. We expect every project to stand on its own."

But he adds there may be many factors to take into account in deciding whether the project is viable. "Profitability is in the eye of the beholder," he says. The Indonesian government, for example, says that there will be benefits for Natuna island in the exploitation of the gas field. The project will bring investment to the island, contributing to the economic development of the remote area.

And Natuna officials believe they can find "ways to share the pain". To secure supplies from the region, buyers might agree to pay higher prices in the early years to reflect the heavy initial costs of building infrastructure such as a harbour, airport and town on Natuna island.

This might be offset by the phased development plan which will defer other costs untill later in the project. Natuna's eventual capacity will be 12 processing units or "trains" producing 15m tonnes of liquefied natural gas a year. But initially only two will be built out of six scheduled for phase one. There is also the possibility of increasing the project's revenue in the early years by exporting the gas to Thailand through an under-sea pipeline.

"It is an appealing idea," says Mr Voigt, who foresees no major technical problems in laying the 1,000-mile pipeline from the offshore platforms to Thailand.

However, Natuna's backers have yet to establish a market for the field's gas. No sales agreements have been signed and without them financing cannot begin.

Mr G.A.S Nayoan, senior executive vice-president of Natuna Gas field Development, the government committee working on the details of the project, says that Pertamina has convinced potential buyers of the project's technical feasibility. But commercial negotiations have yet to begin. Japan, the biggest buyer of Indonesian natural gas, is the logical target. In November, 13 potential Japanese buyers and financiers - including Nissho Iwai, Marubeni, Mitsubishi, three private Japanese upstream oil companies and the Japan National Oil Corporation - were flown to the US for long briefings from Exxon on the technical aspects of extracting Natuna's carbon dioxide.

The plan is to dispose of it in an aquifer, an underground rock formation which stores gas or liquid. "We are satisfied that all their questions were answered," says Mr Voigt.

Natuna executives believe growing concerns in Japan about the future of nuclear energy could enhance the attractiveness of natural gas in general and Natuna gas in particular. "I don't want to bank on such political changes," says Mr Voigt, but "there could be more upside than downside" for Natuna.

Other potential markets are Taiwan and South Korea. There could also be future demand from China, which "a few years ago was not even a topic for conversation", according to Exxon.

Opponents of Natuna, meanwhile, say that the priority being accorded the project will mean that development of other gas discoveries in Indonesia will be neglected. Arco, the US company, has discovered a promising gas field in Irian Jaya with smaller reserves thought to be around between 5,000bn and 15,000bn cubic feet and a carbon dioxide content of only 10 per cent.

"It would be very difficult to launch Natuna at the same time as Arco's [new discovery]," says one Jakarta-based oil and gas executive. "Without Arco, Natuna was difficult but now frankly there is possibly a much cheaper source of gas which is much more profitable for Indonesia."

Natuna will "compete against whoever stands up", says Mr Voigt at Exxon. For all its complexity, it has one clear advantage: its size will guarantee the country's role as a leading supplier of liquefied natural gas well into the 21st century.

Mr Nayoan says that Natuna is "on track and on time", but analysts say several big issues need to be solved soon. One is to sign up buyers for the gas before construction begins next year.

Mr Voigt says Natuna is "much closer to the point of making arrangements with the markets" than commonly thought, but he declines to be drawn on timetables. "We won't be held hostage to self-imposed deadlines," he says.

Another priority is to agree the quity structure for the project. Pertamina and Exxon each have a 50 per cent stake but are keen to involve others to spread the risk.

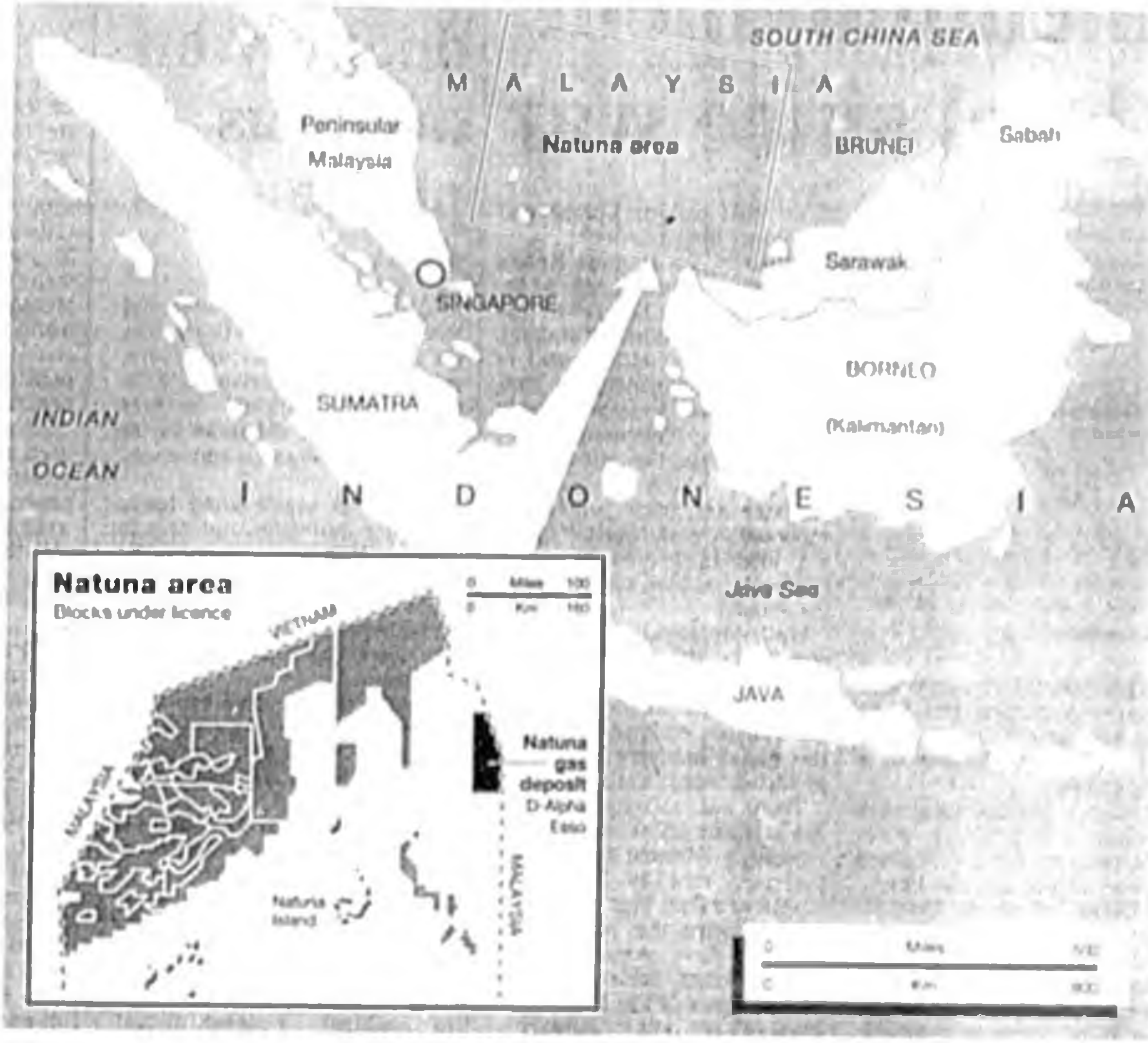
Mobil Oil of the US is negotiating for a 26 per cent share that would come out of Pertamina's interest. Japanese companies are also interested in part of Pertamina's stake, although negotiations will not start until agreement has been reached with Mobil. The idea is that Pertamina would be left with an 11 per cent holding in the project.

However, there is confidence among those involved in the project that issues such as these can be resolved. The heavy political commitment of Jakarta to Natuna means that it is seen as much as a symbol of national prestige as a commercial venture. If Indonesia is to secure the leading role as a natural gas supplier to Asia, failure is not an option.

Financial Times

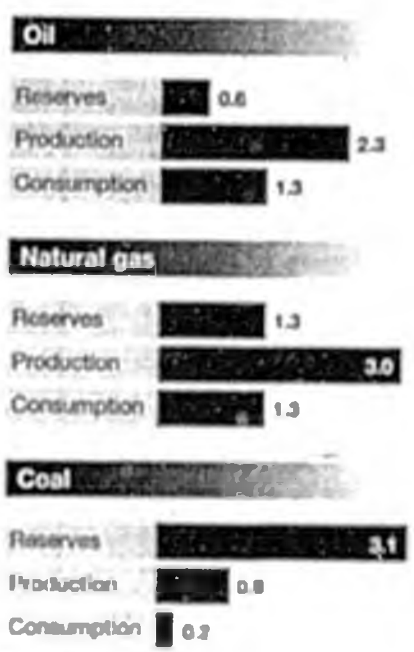
Thursday, March 7, 1996

Natuna: a prestige project



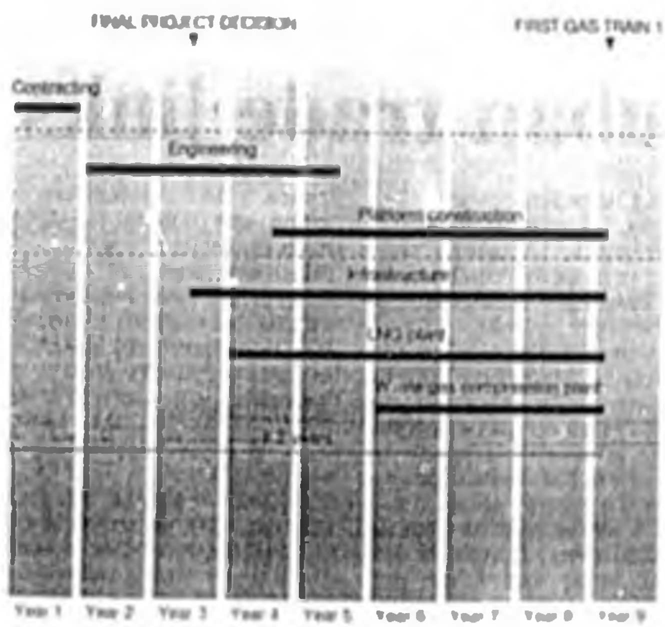
Indonesia: a share of the world

Fossil fuels, 1994



Source: Pertamina

The project schedule



Source: Pertamina

INTERNATIONAL GAS REPORT

Covering the Gas and Gas Liquids Industry Worldwide

15 March 1996

Issue No. 295

ISSN 0266-9382

FT

FINANCIAL TIMES

Energy Publishing

BP/Texaco lead Aussie LNG talks

British Petroleum, a one-sixth partner in the North West Shelf joint venture, and Texaco, owner of a 28.6% stake in the West Australian Petroleum group (WAPET), will lead talks on the proposed big expansion of LNG production in Western Australia. The two independent groups were chosen because of perceptions of undue influence being exerted by either Shell or Chevron, each of which holds equity in both joint ventures, with Shell holding a controlling stake in Woodside Petroleum Ltd, operator of the North West Shelf. Technical studies between the joint ventures are being undertaken on possibilities of blending gas from WAPET's Gorgon field with gas from North Rankin and Goodwyn fields in the North West Shelf.

If studies show the two feedstock gases can be merged, then Texaco and BP will lead talks on how the North West Shelf project can be expanded to meet growing Asian gas demand. Tentative plans call for construction of two new LNG production trains with 3m tonnes (t)/yr capacity each, to be built adjacent to the existing LNG facilities at Dampier, Western Australia. BP chief executive officer and managing director for worldwide exploration Rodney Chase said BP stood firmly behind expansion of the North West Shelf project, adding that the recent Perseus gas discovery, adjacent to the North Rankin gasfield, might be sufficient to support an expansion of that project.

He said the two joint ventures had approached the matter of expanding Australia's LNG industry in the correct fashion. Chase said BP expected the demand peak for new LNG production from Australia to come between 2002 and 2005, meaning expansion would need to be under way by the end of next year to allow construction to meet the new capacity. Analysts have estimated that up to A$15bn ($11.35bn) may ultimately be spent on LNG expansion in WA.

FT International Gas Report, 15 March, 1996, 2[illegible]

Australia and Alaska
LNG Project Comparison

Alaska (TAGS)	
Proposed Market Timing	2003-2005
Volume	15 MTPA
Cost	$[illegible].4 Billion

VS.

Australia	
Proposed Market Timing	2002-2005
Volume	6 MTPA
Cost	$11.3 Billion??

TAGS Competition is Other Undeveloped Gas Fields in:

	Start-up Date	Annual Volume
▲ Qatar (Qatargas & Rasgas)	2005	6-10 MMTA
▲ Indonesia (Natuna Island)	2004	15 MMTA
▲ Sakhalin (Russia)	2004	6 MMTA
▲ Yemen	??	5 MMTA
▲ Papua New Guinea	??	4 MMTA
▲ Oman	2005	6 MMTA
▲ Australia	2003	16 MMTA
▲ Irian Jaya	??	??

Each host country (together with the private gas producers shown above) is actively promoting its project as the next post-2000 LNG supplier to Asia.

adopted 4-10-96

9-LS0715\N
Chenoweth
4/10/96

SENATE CS FOR CS FOR HOUSE JOINT RESOLUTION NO. 54(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES KUBINA, Green, Barnes, Navarre, Mackie, Grussendorf, Phillips, B.Davis, Willis, Sanders, Davies, Robinson, Rokeberg, Ogan, Kott, Foster, Masek, Williams, Therriault, Ivan
SENATORS Pearce, Lincoln, Frank

A RESOLUTION

Encouraging the lessees of Alaska's vast North Slope natural gas reserves to reach agreement to market gas, expressing the legislature's support for an Alaska North Slope (ANS) gas transmission pipeline, and requesting the President of the United States and the Governor of the State of Alaska to publicly support and take action that will help expedite the construction of that system.

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

WHEREAS Alaska has at least 26 trillion cubic feet of natural gas reserves in the Prudhoe Bay field and perhaps two to three times that amount of potential natural gas reserves; and

WHEREAS, beginning in the period 2002 - 2005, there may be an increasing gap between supply and demand for natural gas in the Pacific Rim; and

WHEREAS market and economic studies indicate favorable conditions for the sale of liquefied natural gas (LNG) to these Pacific Rim markets; and

WHEREAS major permits for a pipeline route from the North Slope to Valdez have been completed; and

WHEREAS the sale of Alaska gas to Pacific Rim markets will improve the nation's trade imbalance without adversely affecting other industries or labor; and

WHEREAS the design, sourcing, and construction of a LNG project could infuse several billion dollars into the United States economy; and

WHEREAS the construction of such a pipeline could provide approximately 10,000 temporary construction jobs for two years and over 600 permanent pr ate sector jobs in Alaska; and

WHEREAS the State of Alaska will earn substantial revenue each year from projected gas sales, which would help fill the state's fiscal gap; and

WHEREAS a gas pipeline across Alaska could make available environmentally friendly energy along the pipeline route and encourage development that will increase local employment and local tax revenue; and

WHEREAS the Alaska Municipal League's 1996 policy statement includes the following language: "The League, therefore, strongly encourages all potential participants in the project, including the State of Alaska, to immediately convene to develop a unified proposal to present to the Asian LNG buyers so that all Alaskans will directly benefit from this unique opportunity"; and

WHEREAS natural gas stored as a cryogenic liquid is an efficient and safe means of transporting large quantities of gas with no significant risk to the public; and

WHEREAS securing a market for Alaska North Slope (ANS) gas will be important; there is strong competition for Pacific Rim markets from competing projects in Malaysia, Australia, and other nations; and

WHEREAS Alaska faces competition from other projects and must, therefore, move to secure a place in Asian markets; and

WHEREAS Taiwanese and South Korean buyers have issued letters of intent to purchase ANS liquefied natural gas from Yukon Pacific Corporation; and

WHEREAS Japanese buyers must also commit to buying ANS LNG to make an Alaskan project feasible;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the North Slope natural gas lessees to intensify their efforts to establish satisfactory contractual relationships for transportation and sale of ANS gas to Pacific Rim purchasers as soon as economically possible; and be it

FURTHER RESOLVED that the State of Alaska respectfully requests the President of the United States to demonstrate national support for an ANS gas transmission project to Asian LNG buyers; and be it

FURTHER RESOLVED that the Governor is respectfully requested to

(1) assure the Asian LNG buyers that the state will provide continuity and stability in regards to North Slope natural gas supply, tax structure, and regulatory policy;

(2) continue support of the Joint Pipeline Office, which administers an innovative, efficient, and cost-effective permitting system;

(3) encourage the private developers of the gas pipeline and the state's labor forces to develop an Alaska hire agreement for the ANS gas transmission project; and

(4) meet with all parties to determine how the state can help facilitate the ANS gas transmission pipeline; and be it

FURTHER RESOLVED that the President of the Senate and the Speaker of the House of Representatives, Alaska State Legislature, appoint an interim working group to track progress and assist the transportation permit holder, the working interest owners of the Prudhoe Bay and Point Thompson units, and the administration in developing a unified proposal for presentation to the Asian market; the legislative interim working group shall report on the status of the project and any proposed legislative actions to the Resources Committees of the Alaska House of Representatives and Alaska Senate by February 1, 1997; and be it

FURTHER RESOLVED that the Alaska State Legislature strongly supports the construction of an ANS gas transmission pipeline and offers its assistance to the parties involved in order to speed completion of an ANS gas transmission project.

COPIES of this resolution shall be sent to the Honorable Bill Clinton, President of the United States; the Honorable Al Gore, Jr., Vice-President of the United States and President of the U.S. Senate; the Honorable Bruce Babbitt, Secretary of the Interior; the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress; the Honorable Tony Knowles, Governor of Alaska; to John Snow, Chairman and Chief Executive Officer, CSX Corp.; to Jeff Lowenfels, President, Yukon Pacific Corporation; to Mike Bowlin, Chairman and Chief Executive Officer, Atlantic Richfield Company, and J. K. "Ken" Thompson, President, ARCO Alaska, Inc.; to John Browne, Chief Executive Officer, British Petroleum, and John Morgan, President, B.P. Exploration (Alaska), Inc.; to Lee R. Raymond, Chairman and Chief

 WORK DRAFT WORK DRAFT

Executive Officer, Exxon Corporation, and Jim Branch, Alaska Production Manager, Exxon Alaska; to Shigenobu Yamamoto, Consul General of Japan; to Byuung Hak Min, Consul General of the Republic of Korea; and to Jyhyuan Lo, Director General of the Republic of China.

Alaska State Legislature

Official Business

State Capitol
Juneau AK 99801

MEMO

TO: Legal Services
via fax: X2029 this page only

FROM: Annette Kreitzer, Aide to
Senate Resources Committee

DATE: April 9, 1996

RE: CS HJR 54: Favor Trans-Alaska Gas System & LNG Sales

Please create a Senate Resources committee substitute for HJR 54 that incorporates the following resolve:

Be it further resolved that the President of the Senate and the Speaker of the House appoint an interim working group on North Slope gas commercialization. The purpose of the working group is to track progress and assist the transportation permit holder, the working interest owners of the Prudhoe Bay and Point Thompson units, and the Administration in developing a unified proposal for presentation to the Asian market. The legislative interim working group will report on the status of the project and any proposed legislative actions to the House and Senate Resources committees by February 1, 1997.

DRAFT

CS language for HJR 54

Be it further resolved that the ~~Alaska Legislature requests the~~ President of the Senate and the Speaker of the House ~~to~~ appoint a ~~bi-partisan~~ interim working group on North Slope gas commercialization. The purpose of the working group is to track progress and assist the transportation permit holder, the working interest owners of the Prudhoe Bay and Point Thompson units, and the administration in developing a unified proposal for presentation to the Asian market. The legislative interim working group will report on the status of the project and any proposed legislative actions to the House and senate Resources Committees at the beginning of the 1997 Legislative session.

DRAFT

Paul Fuhs
PROFESSIONAL SERVICES Phone: (907) 790-3030 E-Mail: pfuhs@ptialaska.com

10652 Porter Lane Juneau, Alaska 99801 FAX: (907) 790-1990 Cell phone: (907)723-8019

TELEFAX TRANSMISSION

TO: Annette #Pgs 2

MESSAGE:

hope you had a good Easter!

Paul

only 1 received

Alaska State Legislature
Representative Eugene Kubina
Minority Whip

During Session
Alaska State Capitol
Juneau, Alaska 99801-1182
(907) 465-4859
Fax (907) 465-3799

During Interim
PO Box 2463
Valdez, Alaska 99686
(907) 835-2111
Fax (907) 835-2097

Sponsor Statement

HJR 54-Marketing of North Slope Gas

The marketing of North Slope natural gas, and the construction of a transportation pipeline, could be the most significant industrial project to be undertaken in Alaska for decades to come.

The financial returns to the state would be significant: 10,000 temporary construction jobs, over 600 permanent private sector jobs, and substantial revenues per year from gas sales to help address the state's current fiscal gap.

HJR 54 addresses four key issues concerning this project:

First. HJR 54 requests the President of the United States to include an Alaskan gas line as part of our nation's trade issues. North Slope gas sales could improve the nation's trade balance by an estimated four billion dollars per year.

Second. HJR 54 places the Alaska State Legislature on record as requesting the Governor of Alaska to give the creation of a gas pipe line a top priority within his Administration.

Third. HJR 54 indicates the strong support by the Alaska State Legislature to see the marketing of North Slope natural gas and the construction of a gas transmission pipeline and related facilities.

Fourth. HJR 54 encourages the establishment of an immediate North Slope natural gas forum between the various principles involved in the oil and gas industry (both in production and transportation), the state government, and the federal government.

There are many questions that need to be answered about the development and marketing of the vast fields of natural gas on the North Slope. Given the ownership issues, the complex market factors, and the various timelines faced, it is crucial that an ongoing formal dialogue between the various parties be established to help resolve the various issues.

Of key importance here is timing. The global market for natural gas is quite competitive, and there are a number of new projects being considered to meet international demands within the next decade. If Alaska is going to compete for this natural gas market, immediate steps to begin the process may be necessary. That is the goal of House Joint Resolution 54.

End of statement.

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

No. 2
Bill Version: CS HJR 54(RES)
(H) Publish Date: 3/18/96

Title: Encouraging the lessees of Alaska's vast North ~~Slope natural gas reserves~~ to reach...

Dept. Affected: Natural Resources
BRU: Management & Administrat:

Sponsor: Reps Kubina, Green, Barnes, Navarre...
Requestor: HOUS~~E RESOURCES COMMITTEE~~

Components: Commissioner's Office
Serial # 423

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants, Claims						
Miscellaneous						
TOTAL OPERATING	00	00	00	00	00	00
CAPITAL	00	00	00	00	00	00
REVENUE	00	00	00	00	00	00

FUNDING: (THOUSANDS OF DOLLARS)

General Fund						
Federal Fund						
Other						
TOTAL	00	00	00	00	00	00

POSITIONS:

Full-Time						
Part-Time						
Temporary						

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)
see attached analysis

Prepared by: HOUSE RESOURCES COMMITTEE
Representative William K. Williams, Co-Chair
W.K. Williams

Date: March 14, 1996
Phone: 465-3715
Phone:

COMMITTEE COPY

PAGE 1 OF 1

THE WHITE HOUSE

WASHINGTON

March 12, 1996

Dear Governor Knowles:

Thank you for your recent letter regarding developments in the Alaskan natural gas project.

I have followed with interest your efforts to move this project forward because I believe the development of Alaska's North Slope will bring income and job growth to your state. As you know, I am committed to promoting U.S. exports of goods and services throughout the markets of the Asia Pacific region. This growing market presents a real opportunity for expanding exports, and I'm confident Alaska can compete effectively against other potential natural gas suppliers. Prime Minister Hashimoto is interested in closer economic ties with the United States, and I will encourage Japan to look to Alaska as a reliable supplier of LNG.

I wish you success in your efforts to promote Alaska, its people and its resources.

Sincerely,

Bill Clinton

The Honorable Tony Knowles
Governor of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

MAR 25 1996

EXXON COMPANY, U.S.A.
POST OFFICE BOX 2180 • HOUSTON, TEXAS 77252-2180

NATURAL GAS DEPARTMENT

VICE PRESIDENT

March 22, 1996

The Honorable Eugene Kubina
Alaska State Legislature
Alaska State Capitol
Juneau, Alaska 99801-1182

Dear Representative Kubina:

As Vice President of Exxon Company, U.S.A. Natural Gas Department, I am responsible for marketing Exxon's domestic gas resources and would like to respond to several of the issues raised in your March 14 letter to Mr. James Branch.

Exxon is fully complying with its lease obligations to the State of Alaska and takes those obligations very seriously. Exxon alone has spent over $90 million to date seeking to commercialize its North Slope gas reserves. Exxon continues to work jointly with ARCO and BP to pursue the optimum development of Prudhoe Bay oil and gas reserves. The three companies recently completed a joint study that identified ways to reduce the cost of an LNG project. The study concluded that an Alaska LNG export project is not economically viable at this time. Results of that study have been reviewed with the Administration and Legislature. Joint studies are continuing with the major focus being work with the State to develop adequate and certain fiscal terms.

Many of the concerns raised in your letter appear to be based on press articles relating to the Naluna project in Indonesia. Exxon is very interested in commercializing all of its resources and progressing all of its potential projects. Very large resource development projects, wherever located, require extensive technical plans, lengthy construction programs, and substantial capital investment long before revenues begin. Each has its own unique characteristics which impact its feasibility and simple comparisons of projects are difficult. However, all successful LNG ventures require long term, predictable arrangements among governments, investors, purchasers and financiers. The Indonesian government, Pertamina (the Indonesian national oil company) and Exxon have negotiated over a period of more than five years to develop and arrive at supportive fiscal terms for a Natuna project. That is only one of the many steps necessary for commercialization of an LNG project. The article attached to your letter notes that Natuna (like Alaska) has much to overcome before becoming commercial.

The conclusion of the recent study by Exxon, ARCO and BP that an Alaska LNG export project is not economically viable at this time is consistent with that reached by the Administration based on its independent study and communicated in a January 22, 1996 report to Governor Knowles. Exxon will continue to work cooperatively with ARCO and BP to further reduce the cost of an Alaska project and will work with the State of Alaska to develop adequate and certain fiscal terms necessary for a project of this size. In addition, Exxon maintains frequent contact with the Far East market and is keeping that market aware of Exxon's interest in and efforts to commercialize the gas resource in Alaska.

I have asked Mr. Branch to personally deliver this letter and to clarify these issues as well as answer any other questions you may have.

Sincerely,

JM

c - Governor Tony Knowles
Members of the Alaska State Legislature
The Alaska Congressional Delegation
Commissioner John Shively
Commissioner Wilson Condon
Commissioner William Hensley
Attorney General Bruce Botelho
Alaska Oil and Gas Conservation Commission

Alaska State Legislature

Representative Eugene Kubina

Minority Whip

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MAR 18 1996

14 Mar 1996

Mr. James F. Branch, Production Manager
Exxon Company, USA
P.O. Box 196601
Anchorage, Alaska 99519-6601

Dear Mr. Branch:

I am enclosing a copy of the March 7, 1996 edition of the Financial Times. Even the most cursory review of the article reveals that Exxon is seriously pursuing the $40 billion dollar Indonesian Natuna project.

This comes as quite a surprise given your company's position that the Alaska/North Slope liquefied natural gas (LNG) project is too expensive and the market window projected by Yukon Pacific is premature. Yet, it is clear that Exxon is aggressively promoting a more expensive LNG project to serve the same market and the same market window as the Alaskan project. I am more than extremely concerned that Alaska's largest North Slope gas holder is promoting an alternative project that is not in Alaska's best interest.

I am reminded that Exxon did not accompany the other two major North Slope producers on their trip to the Asian markets in October of 1995. I am also reminded of Mr. Judd Miller's testimony before the Legislature that Exxon has five other liquefied natural gas projects that compete with an Alaska/North Slope Gas Project. Needless to say, I am very concerned.

In fact, I believe that there is a growing belief among many of Alaska's public policy makers that your company is not living up to its obligations under your state leases.

Mr. Branch, let me be very candid here. How can Exxon market Indonesia's $40 billion dollar LNG project so actively and yet remain adamant that Alaska's $13 billion dollar LNG project is not economically viable. How can your company rationally market $5 dollar gas from Indonesia and yet say that Alaska's $4 dollar gas is too expensive?

I believe that I am speaking for an increasing number of Alaskans in saying that it is time for the Exxon management to clarify a very fundamental point: in brief, how do your actions in Indonesia reconcile with your legal obligations under applicable lease law, your leases, and your North Slope Unit Agreement?

I sincerely hope that your response to my inquiry will be forthcoming.

Sincerely,

Gene Kubina

Representative Gene Kubina
District 35

GK/tvb

c.c.: Governor Tony Knowles
Members of the Alaska State Legislature
The Alaska Congressional Delegation
Commissioner John Shively
Commissioner Wilson Condon
Attorney General Bruce Botelho
Alaska Oil and Gas Conservation Commission

When politics precedes price

The Natuna gas field's size and complexity makes it one of the industry's biggest challenges to date, say Manuela Saragosa and Robert Corzine

Plans to develop one of the world's largest natural gas fields in Indonesian waters off Borneo are evoking strong emotions in the region and in the industry.

To its supporters, the Natuna field is a unique energy resource in the midst of the the world's fastest growing economies. Its future revenues are badly needed by Indonesia.

But critics say the plan to exploit the reserves off Natuna, an island about 600km north east of Singapore, will consume billions of dollars of investment and produce gas at costs well above current market prices.

The only point of agreement is that Natuna's size and complexity make its development one of the oil industry's most challenging projects to date. The field is the largest undeveloped hydrocarbon resource in southeast Asia, comparable in size to Norway's Troll, western Europe's largest gas field.

Total gas volumes are around 210,000bn cubic feet, or 6,000bn cubic metres. Only a quarter of this is useable, but even that would be enough to meet Japan's total natural gas needs for 17 years.

Plans to develop it have been studied since 1980. But in 1994 Exxon, the largest US oil company, and Pertamina, Indonesia's state oil company, launched a joint partnership to exploit the field, with the aim of launching the eight year construction phase in 1997.

There is little doubt of the political will to develop Indonesia's natural gas output, with the country's balance of payments suffering as oil production has declined. The Jakarta government has set up a series of high powered committees to get the Natuna project moving, involving some 16 ministers.

Mr Jusuf Habibie, Indonesia's ambitious minister of research and technology, is chairman of the Natuna Project Execution Team, the most important of the committees. Its advisory team includes General Feisal Tanjung, the powerful armed forces chief.

"No one should underestimate the determination of those involved to make it work," says an industry analyst familiar with the project.

No big engineering contracts have yet been issued, although Pertamina officials say those companies which have invested in Indonesia or have a presence there will rank among the favourites. "If you don't fulfil this condition, you're not in," notes one western diplomat.

A leading role looks likely for Amec, the UK construction company which has been asked by Jakarta to organise an engineering consortium. Amec is already well established in Indonesia, working on a joint venture with PAL, the state-owned shipbuilder which is one of several "strategic" industries that Mr Habibie takes an interest in.

However, sceptics in the oil industry cast doubt on the viability of the Natuna project. In spite of its location in the centre of an energy-hungry region its development has proved troublesome.

The main problem is that 71 per cent of its contents is unwanted carbon dioxide, a "greenhouse gas" associated with global warming. Extracting and disposing of it in an environmentally acceptable way is technically difficult and contributes to the forecast development cost of more than $40bn, one of the most expensive gas projects ever undertaken.

Some industry observers say Pertamina and Exxon will need to get $4.50-$5 per million BTUs for Natuna gas – well above the prevailing price of $3-$3.70 for natural gas landed in Japan, the biggest energy markets in the region.

Natuna officials are reluctant to discuss pricing, and note that competitiveness can be measured in other ways. They believe that customers might be prepared to pay extra to secure supplies closer to home, rather than from potentially less stable Middle Eastern liquefied natural gas suppliers.

"We don't use the word 'premium'," says Mr Fritz Voigt, vice president of Exxon's International gas division. "And we don't want a project that needs a premium. We expect every project to stand on its own."

But he adds there may be many factors to take into account in deciding whether the project is viable. "Profitability is in the eye of the beholder," he says. The Indonesian government, for example, says that there will be benefits for Natuna island in the exploitation of the gas field. The project will bring investment to the island, contributing to the economic development of the remote area.

And Natuna officials believe they can find "ways to share the pain". To secure supplies from the region, buyers might agree to pay higher prices in the early years to reflect the heavy initial costs of building infrastructure such as a harbour, airport and town on Natuna island.

This might be offset by the phased development plan which will defer other costs untill later in the project. Natuna's eventual capacity will be 12 processing units or "trains" producing 15m tonnes of liquefied natural gas a year. But initially only two will be built out of six scheduled for phase one. There is also the possibility of increasing the project's revenue in the early years by exporting the gas to Thailand through an under-sea pipeline.

"It is an appealing idea," says Mr Voigt, who foresees no major technical problems in laying the 1,000 mile pipeline from the offshore platforms to Thailand.

However, Natuna's backers have yet to establish a market for the field's gas. No sales agreements have been signed and without them financing cannot begin.

Mr G A S Nayoan, senior executive vice president of Natuna Gas field Development, the government committee working on the details of the project, says that Pertamina has convinced potential buyers of the project's technical feasibility. But commercial negotiations have yet to begin. Japan, the biggest buyer of Indonesian natural gas, is the logical target. In November, 13 potential Japanese buyers and financiers – including Nissho Iwai, Marubeni, Mitsubishi, three private Japanese upstream oil companies and the Japan National Oil Corporation – were flown to the US for long briefings from Exxon on the technical aspects of extracting Natuna's carbon dioxide.

The plan is to dispose of it in an aquifer, an underground rock formation which stores gas or liquid. "We are satisfied that all their questions were answered," says Mr Voigt.

Natuna executives believe growing concerns in Japan about the future of nuclear energy could enhance the attractiveness of natural gas in general and Natuna gas in particular. "I don't want to bank on such political changes," says Mr Voigt, but "there could be more upside than downside" for Natuna.

Other potential markets are Taiwan and South Korea. There could also be future demand from China, which "a few years ago was not even a topic for conversation", according to Exxon.

Opponents of Natuna, meanwhile, say that the priority being accorded the project will mean that development of other gas discoveries in Indonesia will be neglected. Arco, the US company, has discovered a promising gas field in Irian Jaya with smaller reserves thought to be around between 5,000bn and 15,000bn cubic feet and a carbon dioxide content of only 10 per cent.

"It would be very difficult to launch Natuna at the same time as Arco's [new discovery]," says one Jakarta-based oil and gas executive. "Without Arco, Natuna was difficult but now frankly there is possibly a much cheaper source of gas which is much more profitable for Indonesia."

Natuna will "compete against whoever stands up", says Mr Voigt at Exxon. For all its complexity, it has one clear advantage: its size will guarantee the country's role as a leading supplier of liquefied natural gas well into the 21st century.

Mr Nayoan says that Natuna is "on track and on time", but analysts say several big issues need to be solved soon. One is to sign up buyers for the gas before construction begins next year.

Mr Voigt says Natuna is "much closer to the point of making arrangements with the markets" than commonly thought, but he declines to be drawn on timetables. "We won't be held hostage to self-imposed deadlines," he says.