ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 8672

9405 HOUSE RESOURCES

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frankly, we would strongly urge the Council to delay the creation of any special subsistence regulations until Congress and the State have crafted a long term and permanent solution to the existing crisis. We are convinced that the adoption of any of the proposed options is only going to contribute to a further erosion of the state's fisheries management jurisdictions.

Sincerely,

Mike Miller
President of the Senate

Gail Phillips
Speaker of the House

MM/GP:rjs

cc: The Honorable Senator Ted Stevens
The Honorable Senator Frank Murkowski
The Honorable Representative Don Young
The Honorable Governor Tony Knowles

MEMO

Dt: 3/13/97

To: Senate/House Leadership

Fr: Ron Somerville

Re: NPFMC Subsistence Halibut Proposals

The attached material includes a North Pacific Fisheries Management Council set of regulatory options for implementing a subsistence halibut fishery in Alaska and the Halibut Subsistence Committee's report to the Council.

The reason for bringing this to the attention of the leadership is to advise you of the expanding subsistence conflicts, despite the fact that Title VIII of ANILCA does not extend to federal waters beyond the state's territorial sea. In addition, this proposal will inevitably set in motion new procedures for creating new subsistence allocations and potentially the commercial sale of subsistence caught resources within the EEZ.

If the leadership wishes to express a position on this issue to the NPFMC, it needs to do that before the April meeting.

Problems:

1. There is questionable authority for the NPFMC to adopt a racially defined regulatory allocation system.

2. ANILCA subsistence provisions do not extend to federal waters in the EEZ.

3. It is questionable that the adoption of a halibut subsistence regime by the NPFMC will end the subsistence debate. Conceptually, this system will expand to cover all qualified subsistence users and subsistence resources.

4. Some of the data used to justify and identify this fishery are flawed and discriminate against the majority of Alaskans.

5. This creates the potential for the establishment of a commercial market of subsistence caught resources similar to that created in ANILCA.

6. If the Council can adopt this system for halibut, it only seems logical that similar systems can be created for tanner crab, king crab, groundfish and possibly some salmon.

7. At present, the state assists in the enforcement of halibut regulations through the state courts as the Board of Fisheries adopts the halibut regulations by

reference. The State Constitution, however, does not allow discrimination based on race, as is being proposed by the Council. This will create serious enforcement problems throughout the state coastal areas as NMFS enforcement abilities are severely limited.

8. The problems which led to these regulatory problems can more easily and less contentiously be handled by modifying existing regulations (i.e. retention of undersized commercially caught halibut for personal consumption and regulatory changes for specific areas allowing special seasons for specialized methods and means of harvesting for personal consumption).

Options:

1. Do nothing.

2. Support all or portions of the proposed subsistence proposal.

3. Oppose the creation of any subsistence halibut system based on race or residency.

4. Request that the NPFMC delay any creation of a new subsistence fishery until some resolution is reached on the conflicts between the federal government and the state over continued state management and potential changes to ANILCA.

5. Provide testimony for the April meeting of the NPFMC suggesting that the Council pursue regulatory changes which provide additional opportunities for harvesting and retaining halibut for personal consumption.

Halibut Subsistence

As a result of increased IFQ and CDQ enforcement efforts in coastal communities, Native Alaskans requested that the Council take action to allow for the legal harvest of halibut for subsistence. In December 1996, the Council appointed a Halibut Subsistence Committee to provide recommendations to the Council. In February 1997, the Council received the report of the committee and initiated a regulatory amendment that would include the following management options for analysis. Revised regulations likely would be implemented in 1998.

OPTION 1. Define subsistence.

Halibut subsistence regulations are needed to allow the continued practice of long-term customary and traditional practices of fishing halibut for food for families in a non-commercial manner for non-economic consumption. Subsistence is defined as 'non-commercial fishing for food.'

OPTION 2. Define eligibility for halibut subsistence:

Suboption A. Members of Alaska Native Federally-recognized Tribes with customary and traditional use of halibut. (Subsistence Committee definition)

Suboption B. Alaska rural residents as defined in ANILCA and identified in the table entitled 'Alaska Rural Places and Native Groups with Subsistence Halibut Uses,' and will also include other communities for which customary and traditional findings are developed in the future. (ANILCA definition)

Suboption C. Tribal members and non-Native permanent residents of Native villages who have legitimate subsistence needs. (Migratory Bird Treaty Act definition)

OPTION 3. Define legal gear.

Legal halibut subsistence gear is defined as (1) hook-and-line gear (including set and hand-held gear) with a range of 10 hooks, 30 hooks, and 60 hooks and (2) rod-and-reel gear. An individual would be limited to one skate of gear up to 1,800 ft long (not including the buoy line), with hooks set 18-20 ft apart, with a legibly marked buoy.

Suboption. Allow Tribal governments to contract with NMFS to register designated fishermen to fish for the community using:
A. 1 - 3 skates of gear, up to 60 hooks each
B. any gear type

OPTION 4. Define minimum size

Suboption A. No minimum size be imposed for subsistence harvests of halibut.
Suboption B. Revise the commercial halibut minimum size regulations to allow the retention of halibut under 32 inches caught with authorized commercial halibut gear in Area 4E for subsistence use.

OPTION 5. Allow the customary and traditional trade of subsistence halibut.

Suboption A. Allow the customary and traditional trade of subsistence caught halibut.

Suboption B. Allow the barter of subsistence caught halibut, limited to an annual amount: (1) $200; (2) $400; or (3) $600

Allow low monetary, non-commercial sale of halibut to legalize current practice of compensating subsistence fishermen for fuel or other fishing expenses in exchange for fish. The analysis would define 'barter,' 'non-commercial,' 'low monetary value,' and 'customary trade' and analyze the enforcement and monitoring costs of allowing barter.

OPTION 6. Sale of subsistence halibut.

Suboption A. Allow the commercial sale of subsistence-caught halibut.
Suboption B. Prohibit the commercial sale of subsistence-caught halibut.

OPTION 7. Collect subsistence harvest estimates through cooperative agreements with Tribal, State, and Federal governments.

Staff contact is Jane DiCosimo.

Halibut Charter Boat Management

The Council reviewed a draft analysis of management alternatives for the guided halibut sport fishery (charter boats, lodges, and outfitters) prepared by Council staff and the University of Alaska's Institute for Social and Economic Research (ISER). After reviewing the draft analysis, and hearing testimony from charter boat representatives and other industry members, the Council directed staff to conduct further analysis and bring the document back for review at the April meeting in Anchorage. A final decision has been postponed until the June meeting in Kodiak. The primary alternatives being considered by the Council remain: (1) status quo - no action; (2) implementation of a system of recordkeeping and reporting for the charter fleet; (3) a moratorium on further entry into the charter fishery; (4) a cap on the amount of halibut allocated to the guided sport fishery, either statewide or by more specific management areas (an explicit percentage allocation of the quota between guided sport and commercial halibut fisheries, with the option for IFQ purchase by the charter vessels in the event of a fishery closure); and, (5) any combination of the alternatives listed above.

Between now and April, further analysis of these alternatives will be performed, with attention to the following items identified by the Council:

1. Evaluation of the changes in non-guided catches of halibut and the potential impacts of guided and commercial catches on non-guided anglers as identified in the problem statement.

2. Additional model runs (allocation projections) based on a long-term average halibut biomass/quota projection - this will be determined in consultation with IPHC staff.

3. A review of recreational fisheries managed under a cap and the experience of those fisheries with measures designed to extend seasons.

4. Inclusion of economic multipliers (input/output model) to evaluate the economic impact of commercial fishing beyond ex-vessel price to the end-user level.

5. Expansion of the discussion (as much as possible) of how the alternatives relate to Executive Order 12962 "Recreational Fisheries Considerations."

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#1-97 NEWSLETTER 2/18/97

Please, note our NEW home page address!

NPFMC — ***http://www.fakr.noaa.gov/npfmc/npfmc.htm***

February Council Meeting in Anchorage - 126th Plenary Session

The Council's February meeting was kicked off by a joint meeting on February 4 with the Alaska Board of Fisheries. The Board and Council met to discuss groundfish and crab management issues in the waters off Alaska. Details of this and other issues are provided below.

Council and Board Ink Protocol

The Council and the Alaska Board of Fisheries have been seeking ways to keep each other informed on cross-jurisdictional issues that impact fisheries in State and Federal waters. In December, after a conference call concerning the Board's latest actions to initiate a State waters Pacific cod fishery in the Gulf of Alaska, both bodies decided it was time to establish a joint committee to develop a protocol for future interactions. The joint committee met in January and then presented their recommended protocol to both bodies. The Board approved it at their late January meeting, and the Council approved the protocol at their meeting last week, after discussions with the Board on Tuesday, February 4.

The protocol covers all fisheries where there are cross-jurisdictional concerns. The Board and Council will meet annually in Anchorage in February to cover all issues of mutual interest. In the meantime, a joint committee composed of three members from each body will meet more often, perhaps quarterly if necessary, to work through issues of mutual concern and keep each other posted on management initiatives by the other. They will also sift through management proposals to determine which might be of interest to the other body. The intent of the protocol is to provide long-term cooperative, compatible management systems that maintain the sustainability of the fisheries resources in State and Federal waters. A copy of the protocol is available at the Council office.

IN THIS NEWSLETTER

REPORT
HALIBUT SUBSISTENCE COMMITTEE
January 22, 1997

The Halibut Subsistence Committee met in Anchorage on January 22, 1997 to provide to the Council their recommendations for developing halibut subsistence regulations. Committee members Robin Samuelsen (Chairman), Harold Martin, Matt Kookesh, Robert Sundown, Flore Lekanoff, Jack Lorrigan for Theodore Borbridge, Jude Henzler, and David Bill were in attendance. The meeting agenda and documents distributed at the meeting are attached to this report. The Council, IPHC, NOAA GC, NMFS, NMFS Enforcement, ADF&G, and Alaska Department of Law provided staff support.

Jane DiCosimo, Council staff, provided background as to the purpose and goal of the meeting. She related the findings of agency staff at their November 1996 meeting. At the December 1996 Council meeting, the Council indicated its intention to develop regulations to provide for halibut subsistence harvests during 1997 for effect in 1998.

Bob Wolfe, ADF&G Subsistence Division staff, distributed tables and figures of noncommercial halibut harvests by community and Native Group with subsistence halibut uses. The committee adopted the table of rural communities with customary and traditional use of halibut and associated Alaska Native group as developed by the Alaska Board of Fisheries for identifying eligible participants for halibut subsistence harvests. Those Native groups not on the approved list could petition for subsistence privileges.

Dr. Don McCaughran, IPHC staff, discussed a possible revision of the Halibut Convention to separate subsistence from sportfish regulations. He reported that discussions to renegotiate the treaty for other reasons were currently underway. At present, the treaty language does not specifically address subsistence harvests and subsistence users are restricted to sportfish limits of two fish per person per day and rod and reel gear with a limit of two hooks per reel. He also explained that the 32 inch minimum commercial size was imposed by the IPHC to maximize yield in weight and was not imposed for personal use since yield for that sector is maximized in numbers. **The committee recommended that the North Pacific Council encourage the State Department to petition the United States and Canada to amend the Halibut Convention to recognize subsistence rights of aboriginal users.**

The committee discussed the level of halibut removals for subsistence (approximately 300,000 lb) compared with bycatch removals from commercial fishing (approximately 15.5 million lb).

Steve Meyer, NMFS Enforcement, reported that he is required by law to enforce the current halibut commercial and sportfish regulations. The committee noted that the IPHC acknowledged that halibut subsistence harvests did not affect the conservation of the halibut resource. **The committee recommended that the National Marine Fisheries Service not enforce regulations prohibiting halibut subsistence harvests while the Council is developing subsistence regulations.**

The committee described the need and intent for halibut subsistence regulations to allow the continued practice of long-term traditions of fishing halibut for food for their families in a non-commercial manner for non-economic consumption, and defined subsistence as 'non-commercial fishing for food.'

The committee recommended that eligibility for halibut subsistence be defined as "**members of Alaska Native Federally-recognized Tribes with customary and traditional use of halibut.**" The committee decided to accept as eligible those Tribes that were identified by the Alaska Board of Fisheries as having customary and traditional (CAT) halibut uses (Attachment 2). The Tribes are identified with a specific coastal community. The organized Tribal entity within a community would be responsible for deciding which individual members were eligible from Tribal enrollment. An individual's Tribal membership card and a subsistence permit would qualify

that person to subsistence fish for halibut from the community in which he/she is enrolled. Using Tribal enrollment would also allow the community to allow members from other Tribes to join their community and fish. Those Tribes not on the BOF list, but with reasonable access to the fishery and that may have a tradition or need to harvest halibut for subsistence may petition for eligibility. The process and criteria for petitioning would be discussed further by the committee at a subsequent meeting.

The committee discussed a proposal to include "other rural residents in areas of Alaska with halibut uses." The committee discussed the opportunities for non-Tribal Alaskans to harvest halibut and concluded that the two fish per day sportfish limit would meet their needs for supplying their families with halibut for food. The determining factor in this conclusion was the stated need to recognize existing, traditional practice at current levels of halibut removals. The management plan for a halibut subsistence program should legalize the current halibut removals and fishing practices by Tribal members. Expansion of subsistence harvests to non-traditional users may create resource concerns within the IPHC regarding increased levels of halibut removals and localized depletion in some rural and urban communities.

The committee recommended that hook-and-line gear (including set and hand-held gear) with a maximum of 60 hooks, along with rod-and-reel gear be allowed as legal halibut subsistence gear. An individual would be limited to one skate of gear up to 1,800 ft long (not including the buoy line), with hooks set 18-20 ft apart, with a legible marked buoy. More than one fisherman may fish from the same boat.

The committee recommended that no minimum size be imposed for subsistence harvests of halibut. The committee recognized that the levels of halibut subsistence removals, including fish less than 32 inches, compared with commercial and sportfish removals, are not a conservation concern to the IPHC. The committee further recommended that the commercial minimum size regulations be revised to read, "except in Area 4E where halibut under 32 inches caught with authorized commercial halibut gear may be retained for subsistence use." This minimum size exemption would allow for retention of undersized halibut with legal CDQ halibut harvests in Area 4E only, in accordance with local beliefs that releasing any fish is too damaging to the entire stock from which it came.

The committee discussed seasonal and bag limit restrictions for halibut subsistence, but deferred any recommendations to the Council on legal advice that the aforementioned restrictions are within the purview of the IPHC. Interest was expressed for a twelve month season in the Southeast and no bag limit.

The committee recommended that halibut subsistence users be allowed existing levels of bycatch. They recommended unlimited black cod bycatch, noting that there was a black cod subsistence fishery under State designation and that low levels of bycatch occurred in halibut subsistence fishing. They also recommended that halibut subsistence users be allowed to retain rockfish bycatch, and that the Council and State analyze appropriate bycatch levels

The committee considered a suggestion that monitoring of halibut subsistence removals for stock assessment purposes could be best achieved through cooperative agreements between federal agencies and the Tribes

The committee discussed trade and barter of subsistence halibut and endorsed and recommended the sharing and exchange (barter) of halibut since this is a vital part of the traditional subsistence halibut fishery, but that the commercial sale of subsistence-caught halibut not be allowed. The committee further indicated an interest in allowing low monetary, non-commercial sale of halibut to legalize current practice of compensating subsistence fishermen for fuel or other fishing expenses in exchange for fish. The Council may wish to consider allowing trade and barter only among Native Tribal members, limiting the monetary exchange, or other limitations.

The committee expressed interest in continuing to meet to provide recommendations to the Council on the development of halibut subsistence regulations

Noncommercial Halibut Harvests (Lbs Rd Wt) by Residents of Alaska Rural Places in Areas with Subsistence Halibut Uses

Source: Household Surveys, Division of Subsistence, ADF&G

	Halibut Coastal District	Survey Year	Removed from Commercial Gear	Other Non-Commercial Gear	Rod and Reel Gear	Gear Not Ascertained	Total Halibut Harvest	Estimated Per Capita Harvest
District 2C								
Angoon	2C	1987	2,930	*	13,314		16,244	35
Coffman Cove	2C	1987	172	*	6,821		6,993	38
Craig	2C	1987	3,891	*	17,125		21,016	18
Edna Bay	2C	1987	1,760	*	4,060		5,820	84
Elfin Cove	2C	1987	956	*	1,513		2,470	41
Gustavus	2C	1987	552	*	12,133		12,685	83
Haines	2C	1987	5,809	*	26,190		31,999	20
Hollis	2C	1987	41	*	940		982	12
Hoonah	2C	1987	11,674	*	23,176		34,850	50
Hydaburg	2C	1987	4,127	*	7,929		12,056	32
Hyder	2C	1987	1,351	*	3,584		4,935	63
Kake	2C	1987	4,386	*	13,523		17,909	28
Kasaan	2C	1987	21	*	511		532	13
Klawock	2C	1987	1,265	*	31,955		33,220	42
Klukwan	2C	1987	0	*	193		193	1
Metlakatla	2C	1987	4,095	*	12,442		16,537	11
Meyers Chuck	2C	1987	0	*	3,075		3,075	103
Pelican	2C	1987	5,038	*	13,048		18,086	76
Petersburg	2C	1987	15,596	*	142,902		158,498	42
Point Baker	2C	1987	862	*	766		1,628	47
Port Alexander	2C	1987	708	*	3,695		4,402	41
Port Protection	2C	1987	505	*	2,252		2,757	47
Saxman	2C	1987	141	*	3,352		3,492	13
Sitka	2C	1987	16,418	*	240,708		257,126	32
Skagway	2C	1987	0	*	4,941		4,941	8
Tenakee Springs	2C	1987	608	*	5,257		5,865	62
Thorne Bay	2C	1987	13,179	*	11,450		24,628	51
Whale Pass	2C	1987	106	*	1,325		1,431	28
Wrangell	2C	1987	13,963	*	58,600		72,563	26
TOTAL 2C	**2C**	**	**110,156**	*	**666,779**	**0**	**776,934**	**31**
	(Percent Gear)		*14.2%*	*	*85.8%*	*0.0%*	*100.0%*	

** In 2C, household surveys did not ask about "other non-commercial gear".*

District 3A								
Akhiok	3A	1992	41	1,845	32		1,918	24
Chenega Bay	3A	1992	469	1,973	2,154		4,596	68
Cordova	3A	1991	33,391	154	33,906		67,451	29
Karluk	3A	1990	0	3,273	1,073		4,346	53
Kodiak City	3A	1991	64,164	53,985	274,893		393,042	27
Larsen Bay	3A	1990	4,905	1,882	8,115		14,902	103
Nanwalek	3A	1991	0	1,954	5,856		7,810	48
Old Harbor	3A	1991	2,240	10,575	4,967		17,782	89
Ouzinkie	3A	1990	6,868	3,451	2,951		13,270	66

Noncommercial Halibut Harvests (Lbs Rd Wt) by Residents of Alaska Rural Places in Areas with Subsistence Halibut Uses

Source: Household Surveys, Division of Subsistence, ADF&G

	Halibut Coastal District	Survey Year	Removed from Commercial Gear	Other Non-Commercial Gear	Rod and Reel Gear	Gear Not Ascertained	Total Halibut Harvest	Estimated Per Capita Harvest
Port Graham	3A	1991	2,212	6,445	3,101		11,758	73
Port Lions	3A	1993	850	2,353	8,065		11,268	63
Seldovia	3A	1991	5,424	100	17,178		22,702	67
Tatitlek	3A	1991	92	852	1,613		2,557	31
Yakutat	3A	1987	3,031	*	29,844		32,875	56
TOTAL 3A	3A	**	**123,687**	**88,842**	**393,749**	**0**	**606,278**	**32**
	(Percent Gear)		*20.4%*	*14.7%*	*64.9%*	*0.0%*	*100.0%*	

** In Yakutat, household surveys did not ask about "other non-commercial gear".*

District 3B								
Chignik Bay	3B	1991	8,380	2,708	1,737		12,825	134
Chignik Lagoon	3B	1989	1,237	738	0		1,975	48
Chignik Lake	3B	1991	2,173	1,849	0		4,022	16
Cold Bay	3B	Est				5,920	5,920	
False Pass	3B	1988	1,971	403	1,137		3,511	27
Ivanof Bay	3B	1989	0	1,091	638		1,729	54
King Cove	3B	1992	7,685	1,696	454		9,835	18
Nelson Lagoon	3B	1987					0	0
Perryville	3B	1989	420	5,398	1,506		7,324	63
Sand Point	3B	1992	11,037	12,265	1,427		24,729	31
TOTAL 3B	3B	**	**32,904**	**26,148**	**6,899**	**5,920**	**71,871**	**35**
	(Percent Gear)		*45.8%*	*36.4%*	*9.6%*	*8.2%*	*100.0%*	
District 4A-D								
Akutan	4A-D	1990	2,926	8,082	548		11,556	114
Atka	4A-D	1994	427	3,949	551		4,926	58
Nikolski	4A-D	1990	0	11,837	0		11,837	244
St. George	4A-D	1994	1,205	4,929	0		6,132	34
St. Paul	4A-D	1994	8,671	49,682	125		58,479	139
Unalaska	4A-D	1994	14,106	12,580	117,226		143,911	79
TOTAL 4A-D	4A-D	**	**37,335**	**91,059**	**118,449**	**0**	**246,841**	**90**
	(Percent Gear)		*15.1%*	*36.9%*	*48.0%*	*0.0%*	*100.0%*	
District 4E								
Chefornak	4E	Est				12,800	12,900	40
Gambell	4E	**					**	
Mekoryak	4E	Est				7,080	7,080	40
Newtok	4E	Est				8,280	8,280	40
Nightmute	4E	Est				6,120	6,120	40
Savoonga	4E	**					**	
Tokscok Bay	4E	Est				16,800	16,800	40
Tununak	4E	1986				40,754	40,754	124
Wales	4E	**					**	
Aleknagik	4E	**					**	
Clark's Point	4E	**					**	
Dillingham	4E	1984					0	0

Noncommercial Halibut Harvests (Lbs Rd Wt) by Residents of Alaska Rural Places in Areas with Subsistence Halibut Uses

Source: Household Surveys, Division of Subsistence, ADF&G

	Halibut Coastal District	Survey Year	Removed from Commercial Gear	Other Non-Commercial Gear	Rod and Reel Gear	Gear Not Ascertained	Total Halibut Harvest	Estimated Per Capita Harvest
Egegik	4E	1984	0	0	286		286	3
King Salmon	4E	**					**	
Kipnuk	4E	**					**	
Kongiganak	4E	**					**	
Levelock	4E	1989		528			528	5
Manokotak	4E	**					**	
Naknek	4E	**					**	
Nome	4E	**					**	
Pilot Point	4E	1987	229	0	70		299	5
Port Heiden	4E	1987	0	197	0		197	2
South Naknek	4E	1992	116	28	0		144	1
Alakanuk	4E	**					**	
Bethel	4E	**					**	
Brevig Mission	4E	**					**	
Chevak	4E	**					**	
Eek	4E	**					**	
Elim	4E	**					**	
Emmonak	4E	**					**	
Golovin	4E	**					**	
Gnodnews Bay	4E	**					**	
Hooper Bay	4E	**					**	
Kotlik	4E	**					**	
Koyuk	4E	**					**	
Kwigillingok	4E	**					**	
Napakiak	4E	**					**	
Napaskiak	4E	**					**	
Oscarville	4E	**					**	
Platinum	4E	**					**	
Quinhagak	4E	**					**	
Scammon Bay	4E	**					**	
Shaktoolik	4E	**					**	
Sheldon Point	4E	**					**	
St. Michael	4E	**					**	
Stebbins	4E	**					**	
Teller	4E	**					**	
Togiak	4E	**					**	
Turtutuliak	4E	**					**	
Twin Hills	4E	**					**	
Ugashik	4E	1987					0	0
Unalakleet	4E	**					**	
White Mountain	4E	**					**	
TOTAL 4E	4E	**	0	0	286	91,834	92,120	54
	(Percent Gear)		*0.0%*	*0.0%*	*0.3%*	*99.7%*	*100.0%*	

Note: Round Weight (Not Eviscerated, Head On) = Usable Wt (Eviscerated, Head Off)/.7519

Noncommercial Halibut Harvests (Lbs Rd Wt) by Residents of Alaska Rural Places in Areas with Subsistence Halibut Uses

Source: Household Surveys, Division of Subsistence, ADF&G

	Halibut Coastal District	Survey Year	Removed from Commercial Gear	Other Non-Commercial Gear	Rod and Reel Gear	Gear Not Ascertained	Total Halibut Harvest	Estimated Per Capita Harvest
DISTRICT SUMMARY								
District 2C	2C	**	110,156	*	666,779	0	776,934	31
District 3A	3A	**	123,687	88,842	393,749	0	606,278	32
District 3B	3B	**	32,904	26,148	6,899	5,920	71,871	35
Districts 4A-D	4A-D	**	37,335	91,059	118,449	0	246,841	90
District 4E	4E	**	0	0	286	91,834	92,120	54
TOTAL DISTRICTS		**	304,081	206,049	1,186,162	97,754	1,794,045	36
	(Percent Gear)		*16.9%*	*11.5%*	*66.1%*	*5.4%*	*100.0%*	

** In 2C, household surveys did not ask about "other non-commercial gear".*

Alaska Rural Places and Native Groups in Areas with Subsistence Halibut Uses

Source: Alaska Department of Fish and Game

Place	Organized Entity	Halibut Coastal District	Use Pattern 1 = regular 2 = periodic 3 = undocumented
Alaska Rural Places*			
Angoon	Municipality	2C	1
Coffman Cove	Municipality	2C	1
Craig	Municipality	2C	1
Edna Bay	Census Designated Place	2C	1
Elfin Cove	Census Designated Place	2C	1
Gustavus	Census Designated Place	2C	1
Haines	Municipality	2C	1
Hollis	Census Designated Place	2C	1
Hoonah	Municipality	2C	1
Hydaburg	Municipality	2C	1
Hyder	Census Designated Place	2C	1
Kake	Municipality	2C	1
Kasaan	Municipality	2C	1
Klawock	Municipality	2C	1
Klukwan	Census Designated Place	2C	1
Metlakatla	Census Designated Place	2C	1
Meyers Chuck	Census Designated Place	2C	1
Pelican	Municipality	2C	1
Petersburg	Municipality	2C	1
Point Baker	Census Designated Place	2C	1
Port Alexander	Municipality	2C	1
Port Protection	Census Designated Place	2C	1
Saxman	Municipality	2C	1
Sitka	Municipality	2C	1
Skagway	Municipality	2C	1
Tenakee Springs	Municipality	2C	1
Thorne Bay	Municipality	2C	1
Whale Pass	Census Designated Place	2C	1
Wrangell	Municipality	2C	1
Akhiok	Municipality	3A	1
Chenega Bay	Census Designated Place	3A	1
Cordova	Municipality	3A	1
Karluk	Census Designated Place	3A	1
Kodiak City	Municipality	3A	1
Larsen Bay	Municipality	3A	1
Nanwalek	Census Designated Place	3A	1
Old Harbor	Municipality	3A	1
Ouzinkie	Municipality	3A	1
Port Graham	Census Designated Place	3A	1
Port Lions	Municipality	3A	1
Seldovia	Municipality	3A	1
Tatitlek	Census Designated Place	3A	1

Alaska Rural Places and Native Groups in Areas with Subsistence Halibut Uses

Source: Alaska Department of Fish and Game

Place	Organized Entity	Halibut Coastal District	Use Pattern 1 = regular 2 = periodic 3 = undocumented
Yakutat	Municipality	3A	1
Chignik Bay	Municipality	3B	1
Chignik Lagoon	Census Designated Place	3B	1
Chignik Lake	Census Designated Place	3B	1
Cold Bay	Municipality	3B	1
False Pass	Municipality	3B	1
Ivanof Bay	Census Designated Place	3B	1
King Cove	Municipality	3B	1
Nelson Lagoon	Census Designated Place	3B	1
Perryville	Census Designated Place	3B	1
Sand Point	Municipality	3B	1
Akutan	Municipality	4A-D	1
Atka	Municipality	4A-D	1
Nikolski	Census Designated Place	4A-D	1
St. George	Municipality	4A-D	1
St. Paul	Municipality	4A-D	1
Unalaska	Municipality	4A-D	1
Chefornak	Municipality	4E	1
Gambell	Municipality	4E	1
Mekoryak	Municipality	4E	1
Newtok	Census Designated Place	4E	1
Nightmute	Municipality	4E	1
Savoonga	Municipality	4E	1
Toksook Bay	Municipality	4E	1
Tununak	Census Designated Place	4E	1
Wales	Municipality	4E	1
Aleknagik	Municipality	4E	2
Clark's Point	Municipality	4E	2
Dillingham	Municipality	4E	2
Egegik	Municipality	4E	2
King Salmon	Census Designated Place	4E	2
Kipnuk	Census Designated Place	4E	2
Kongiganak	Census Designated Place	4E	2
Levelock	Census Designated Place	4E	2
Manokotak	Municipality	4E	2
Naknek	Census Designated Place	4E	2
Nome	Municipality	4E	2
Pilot Point	Municipality	4E	2
Port Heiden	Municipality	4E	2
South Naknek	Census Designated Place	4E	2
Alakanuk	Municipality	4E	3
Bethel	Municipality	4E	3
Brevig Mission	Municipality	4E	3

Alaska Rural Places and Native Groups in Areas with Subsistence Halibut Uses

Source: Alaska Department of Fish and Game

Place	Organized Entity		Halibut Coastal District	Use Pattern 1 = regular 2 = periodic 3 = undocumented
Chevak	Municipality		4E	3
Eek	Municipality		4E	3
Elim	Municipality		4E	3
Emmonak	Municipality		4E	3
Golovin	Municipality		4E	3
Goodnews Bay	Municipality		4E	3
Hooper Bay	Municipality		4E	3
Kotlik	Municipality		4E	3
Koyuk	Municipality		4E	3
Kwigillingok	Census Designated Place		4E	3
Napakiak	Municipality		4E	3
Napaskiak	Municipality		4E	3
Oscarville	Census Designated Place		4E	3
Platinum	Municipality		4E	3
Quinhagak	Municipality		4E	3
Scammon Bay	Municipality		4E	3
Shaktoolik	Municipality		4E	3
Sheldon Point	Municipality		4E	3
St. Michael	Municipality		4E	3
Stebbins	Municipality		4E	3
Teller	Municipality		4E	3
Togiak	Municipality		4E	3
Tuntutuliak	Census Designated Place		4E	3
Twin Hills	Census Designated Place		4E	3
Ugashik	Census Designated Place		4E	3
Unalakleet	Municipality		4E	3
White Mountain	Municipality		4E	3
Alaska Native Groups**				
Angoon	Angoon Community Association	Tlingit	2C	1
Craig	Craig Community Association	Tlingit	2C	1
Haines	Chilkoot Indian Association	Tlingit	2C	1
Hoonah	Hoonah Indian Association	Tlingit	2C	1
Hydaburg	Hydaburg Cooperative Association	Haida	2C	1
Juneau	Aukcuan Traditional Council***	Tlingit	2C	1
Juneau	Central Council Tlingit & Haida Indian Tribes	Tlingit-Haida	2C	1
Juneau	Douglas Indian Association	Tlingit	2C	1
Kake	Organized Village of Kake	Tlingit	2C	1
Kasaan	Organized Village of Kasaan	Haida	2C	1
Ketchikan	Ketchikan Indian Corporation	Tlingit	2C	1
Klawock	Klawock Cooperative Association	Tlingit	2C	1
Klukwan	Chilkat Indian Village	Tlingit	2C	1

Alaska Rural Places and Native Groups in Areas with Subsistence Halibut Uses

Source: Alaska Department of Fish and Game

Place	Organized Entity		Halibut Coastal District	Use Pattern 1 = regular 2 = periodic 3 = undocumented
Metlakatla	Metlakatla Indian Community, Annette Island Reserve	Tsimshian	2C	1
Petersburg	Petersburg Indian Association	Tlingit	2C	1
Saxman	Organized Village of Saxman	Tlingit	2C	1
Sitka	Sitka Tribe of Alaska	Tlingit	2C	1
Skagway	Skagway Village	Tlingit	2C	1
Wrangell	Wrangell Cooperative Association	Tlingit	2C	1
Akhiok	Native Village of Akhiok	Alutiiq	3A	1
Chenega Bay	Native Village of Chanega	Alutiiq	3A	1
Cordova	Native Village of Eyak	Eyak-Alutiiq	3A	1
Karluk	Native Village of Karluk	Alutiiq	3A	1
Kenai	Kenaitze Indian Tribe	Dena'ina	3A	1
Kenai	Village of Salamatoff	Dena'ina	3A	1
Kodiak City	Lesnoi Village (Woody Island)	Alutiiq	3A	1
Kodiak City	Native Village of Afognak	Alutiiq	3A	1
Kodiak City	Shoonaq' Tribe of Kodiak***	Alutiiq	3A	1
Larsen Bay	Native Village of Larsen Bay	Alutiiq	3A	1
Nanwalek	Native Village of Nanwalek	Alutiiq	3A	1
Ninilchik	Ninilchik Village	Dena'ina	3A	1
Old Harbor	Village of Old Harbor	Alutiiq	3A	1
Ouzinkie	Native Village of Ouzinkie	Alutiiq	3A	1
Port Graham	Native Village of Port Graham	Alutiiq	3A	1
Port Lions	Native Village of Port Lions	Alutiiq	3A	1
Seldovia	Seldovia Village Tribe	Dena'ina-Alutiiq	3A	1
Tatitlek	Native Village of Tatitlek	Alutiiq	3A	1
Yakutat	Yakutat Tlingit Tribe	Tlingit	3A	1
Chignik Bay	Native Village of Chignik	Alutiiq	3B	1
Chignik Lagoon	Native Village of Chignik Lagoon	Alutiiq	3B	1
Chignik Lake	Chignik Lake Village	Alutiiq	3B	1
False Pass	Native Village of False Pass	Aleut	3B	1
Ivanof Bay	Ivanoff Bay Village	Alutiiq	3B	1
King Cove	Agdaagux Tribe of King Cove	Aleut	3B	1
King Cove	Native Village of Belkofski	Aleut	3B	1
Nelson Lagoon	Native Village of Nelson Lagoon	Aleut-Alutiiq	3B	1
Perryville	Native Village of Perryville	Alutiiq	3B	1
Sand Point	Pauloff Harbor Village	Aleut	3B	1
Sand Point	Native Village of Unga	Aleut	3B	1
Sand Point	Qagan Toyagungin Tribe of Sand Point Village	Aleut	3B	1
Akutan	Native Village of Akutan	Aleut	4A-D	1
Atka	Native Village of Atka	Aleut	4A-D	1
Nikolski	Native Village of Nikolski	Aleut	4A-D	1

Alaska Rural Places and Native Groups in Areas with Subsistence Halibut Uses

Source: Alaska Department of Fish and Game

Place	Organized Entity		Halibut Coastal District	Use Pattern 1 = regular 2 = periodic 3 = undocumented
St. George	Pribilof Islands Aleut Communities of St. Paul Island & St. George Islands	Aleut	4A-D	1
St. Paul	Pribilof Islands Aleut Communities of St. Paul Island & St. George Islands	Aleut	4A-D	1
Unalaska	Qawalingin Tribe of Unalaska	Aleut	4A-D	1
Chefornak	Village of Chefornak	Yup'ik	4E	1
Gambell	Native Village of Gambell	Siberian Yup'ik	4E	1
Mekoryak	Native Village of Mekoryak	Cup'ik	4E	1
Newtok	Newtok Village	Yup'ik	4E	1
Nightmute	Native Village of Nightmute	Yup'ik	4E	1
Nightmute	Umkumiute Native Village	Yup'ik	4E	1
Savoonga	Native Village of Savoonga	Siberian Yup'ik	4E	1
Toksook Bay	Native Village of Toksook Bay	Yup'ik	4E	1
Tununak	Native Village of Tununak	Yup'ik	4E	1
Wales	Native Village of Wales	Inupiat	4E	1
Aleknagik	Native Village of Aleknagik	Yup'ik	4E	2
Clark's Point	Village of Clark's Point	Yup'ik	4E	2
Dillingham	Native Village of Dillingham	Yup'ik	4E	2
Dillingham	Native Village of Ekuk	Yup'ik	4E	2
Egegik	Egegik Village	Alutiiq-Yup'ik	4E	2
Egegik	Village of Kanatak	Alutiiq-Yup'ik	4E	2
Kipnuk	Native Village of Kipnuk	Yup'ik	4E	2
Levelock	Levelock Village	Yup'ik	4E	2
Manokotak	Manokotak Village	Yup'ik	4E	2
Naknek	Naknek Native Village	Alutiiq-Yup'ik	4E	2
Nome	King Island Native Community	Inupiat	4E	2
Nome	Nome Eskimo Community	Inupiat	4E	2
Pilot Point	Native Village of Pilot Point	Alutiiq-Yup'ik	4E	2
Port Heiden	Native Village of Port Heiden	Alutiiq	4E	2
South Naknek	South Naknek Village	Alutiiq-Yup'ik	4E	2
Alakanuk	Village of Alakanuk	Yup'ik	4E	3
Bethel	Orutsararmuit Native Village	Yup'ik	4E	3
Brevig Mission	Native Village of Brevig Mission	Inupiat	4E	3
Chevak	Chevak Native Village	Cup'ik	4E	3
Council	Native Village of Council	Inupiat	4E	3
Eek	Native Village of Eek	Yup'ik	4E	3
Elim	Native Village of Elim	Yup'ik	4E	3
Emmonak	Chuloonawick Native Village	Yup'ik	4E	3
Emmonak	Emmonak Village	Yup'ik	4E	3
Golovin	Chinik Eskimo Community	Inupiat-Yup'ik	4E	3
Goodnews Bay	Native Village of Goodnews Bay	Yup'ik	4E	3
Hooper Bay	Native Village of Hooper Bay	Cup'ik	4E	3
Hooper Bay	Native Village of Paimiut	Cup'ik	4E	3

Alaska Rural Places and Native Groups
In Areas with Subsistence Halibut Uses

Source: Alaska Department of Fish and Game

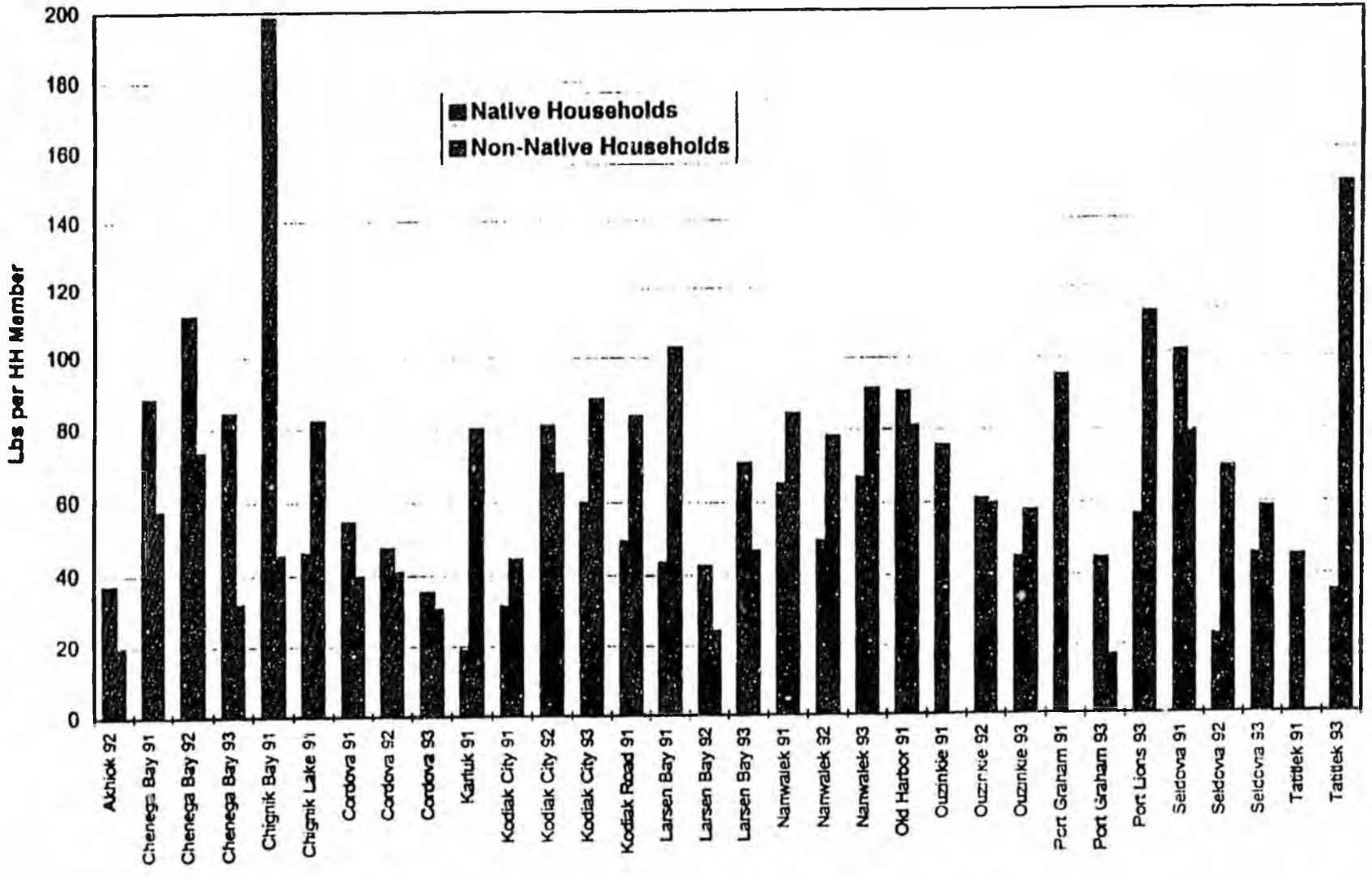
Place	Organized Entity		Halibut Coastal District	Use Pattern 1 = regular 2 = periodic 3 = undocumented
Kongiganak	Native Village of Kongiganak	Yup'ik	4E	3
Kotlik	Native Village of Hamilton	Yup'ik	4E	3
Kotlik	Village of Bill Moore's Slough	Yup'ik	4E	3
Kotlik	Village of Kotlik	Yup'ik	4E	3
Koyuk	Native Village of Koyuk	Inupiat	4E	3
Kwigillingok	Native Village of Kwigillingok	Yup'ik	4E	3
Napakiak	Native Village of Napakiak	Yup'ik	4E	3
Napaskiak	Native Village of Napaskiak	Yup'ik	4E	3
Oscarville	Oscarville Traditional Village	Yup'ik	4E	3
Platinum	Platinum Traditional Village	Yup'ik	4E	3
Quinhagak	Native Village of Kwinhagak	Yup'ik	4E	3
Scammon Bay	Native Village of Scammon Bay	Yup'ik	4E	3
Shaktoolik	Native Village of Shaktoolik	Inupiat-Yup'ik	4E	3
Sheldon Point	Native Village of Sheldon's Point	Yup'ik	4E	3
Solomon	Village of Solomon	Inupiat	4E	3
St. Michael	Native Village of Saint Michael	Yup'ik	4E	3
Stebbins	Stebbins Community Association	Yup'ik	4E	3
Teller	Native Village of Mary's Igloo	Inupiat	4E	3
Teller	Native Village of Teller	Inupiat	4E	3
Togiak	Traditional Village of Togiak	Yup'ik	4E	3
Tuntutuliak	Native Village of Tuntutuliak	Yup'ik	4E	3
Twin Hills	Twin Hills Village	Yup'ik	4E	3
Ugashik	Ugashik Village	Alutiiq-Yup'ik	4E	3
Unalakleet	Native Village of Unalakleet	Inupiat-Yup'ik	4E	3
White Mountain	Native Village of White Mountain	Inupiat	4E	3

* Places where subsistence (wild food harvest and use) is a principal characteristic of the community's economy and way of life.

** Indian entities recognized and eligible to receive services from the United States Bureau of Indian Affairs. cf., Federal Register, February 16, 1995, v. 60, no. 32, p. 9249-9255.

*** Applying for recognized status.

Mean Halibut Harvests by Native and Non-Native Households That Harvested Halibut



Source: Robert Wolfe, Division of Subsistence, ADFG

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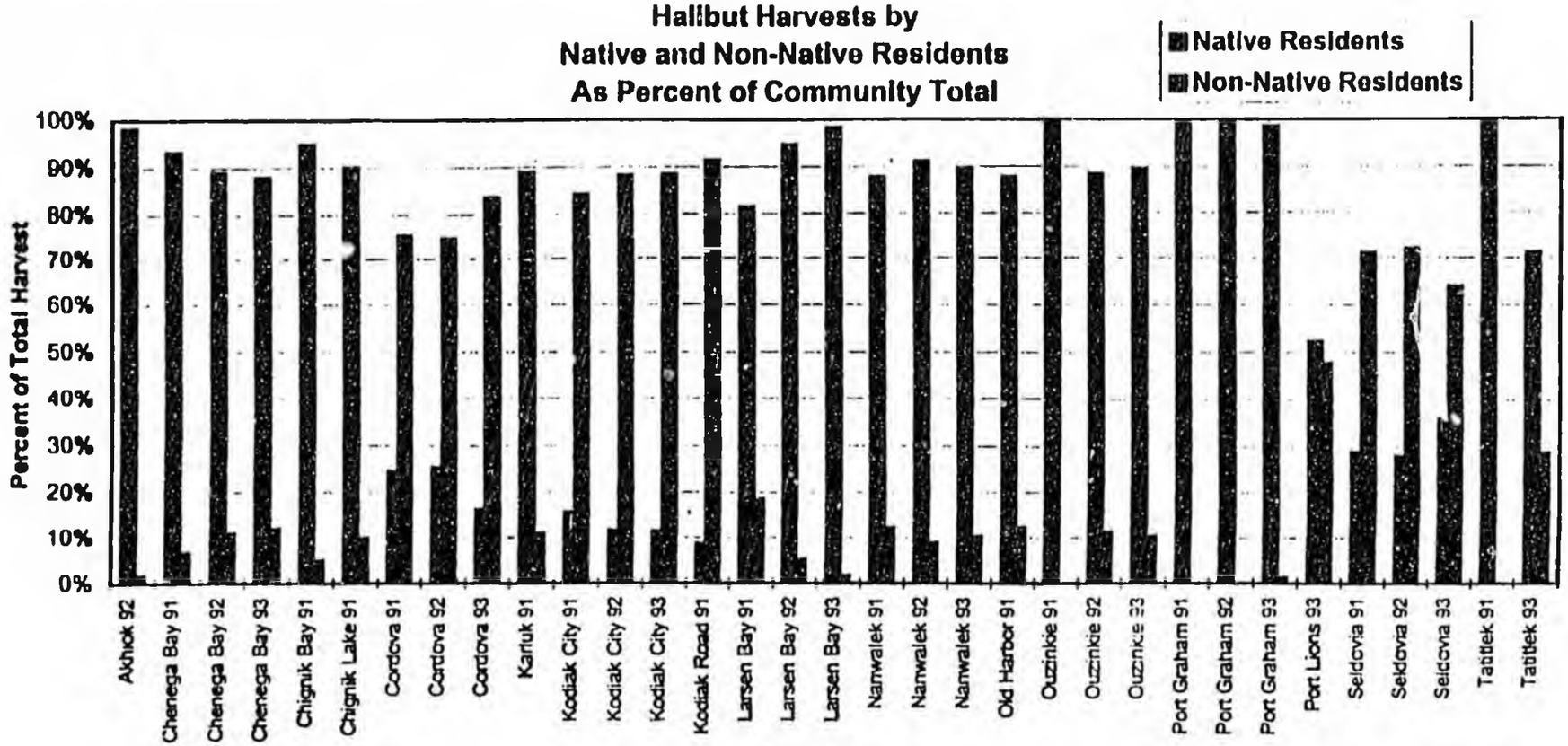

Source: Robert Wolfe, Division of Subsistence, ADFG

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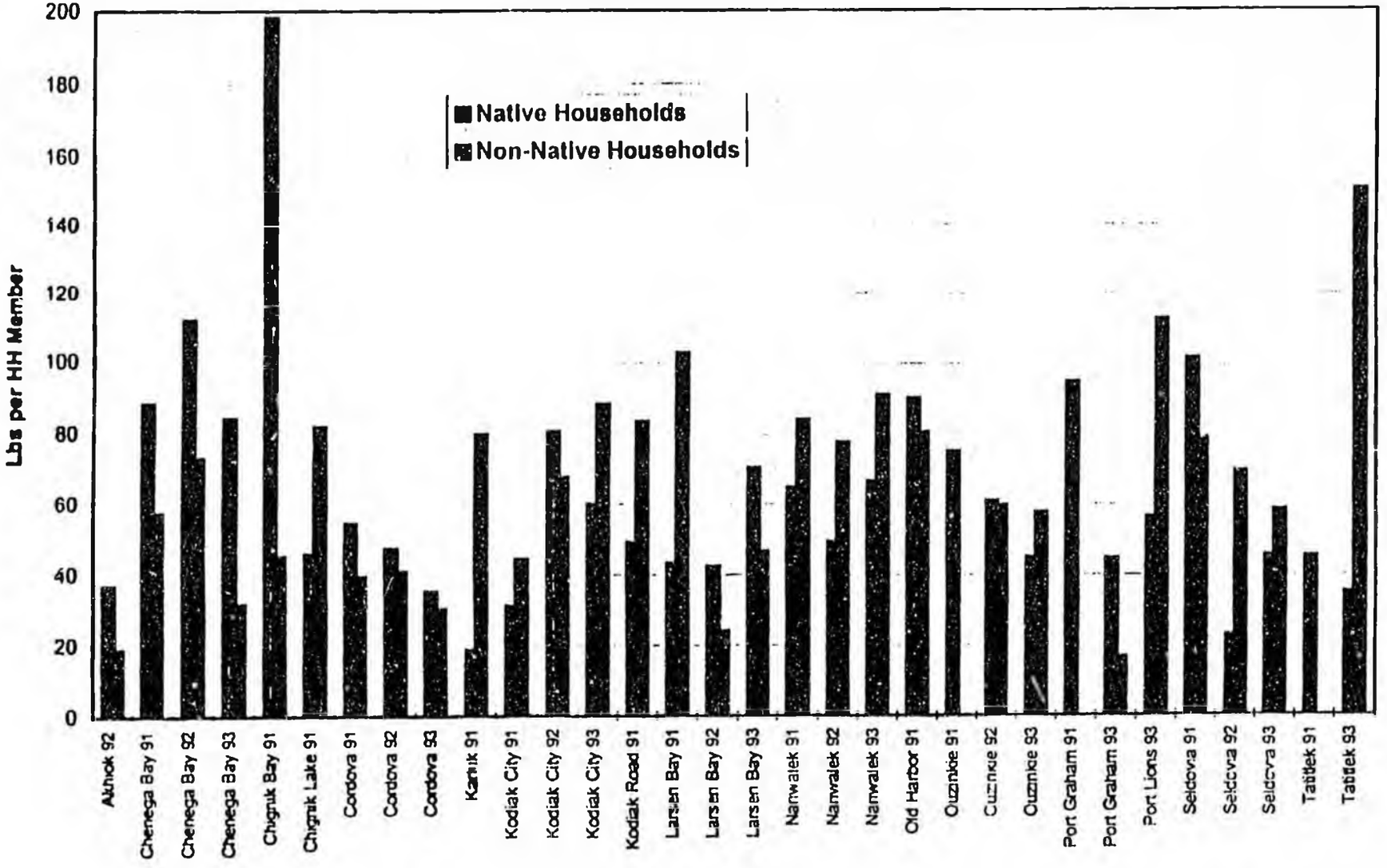
Mean Halibut Harvests by Native and Non-Native Households That Harvested Halibut



Source: Robert Wolfe, Division of Subsistence, ADFG

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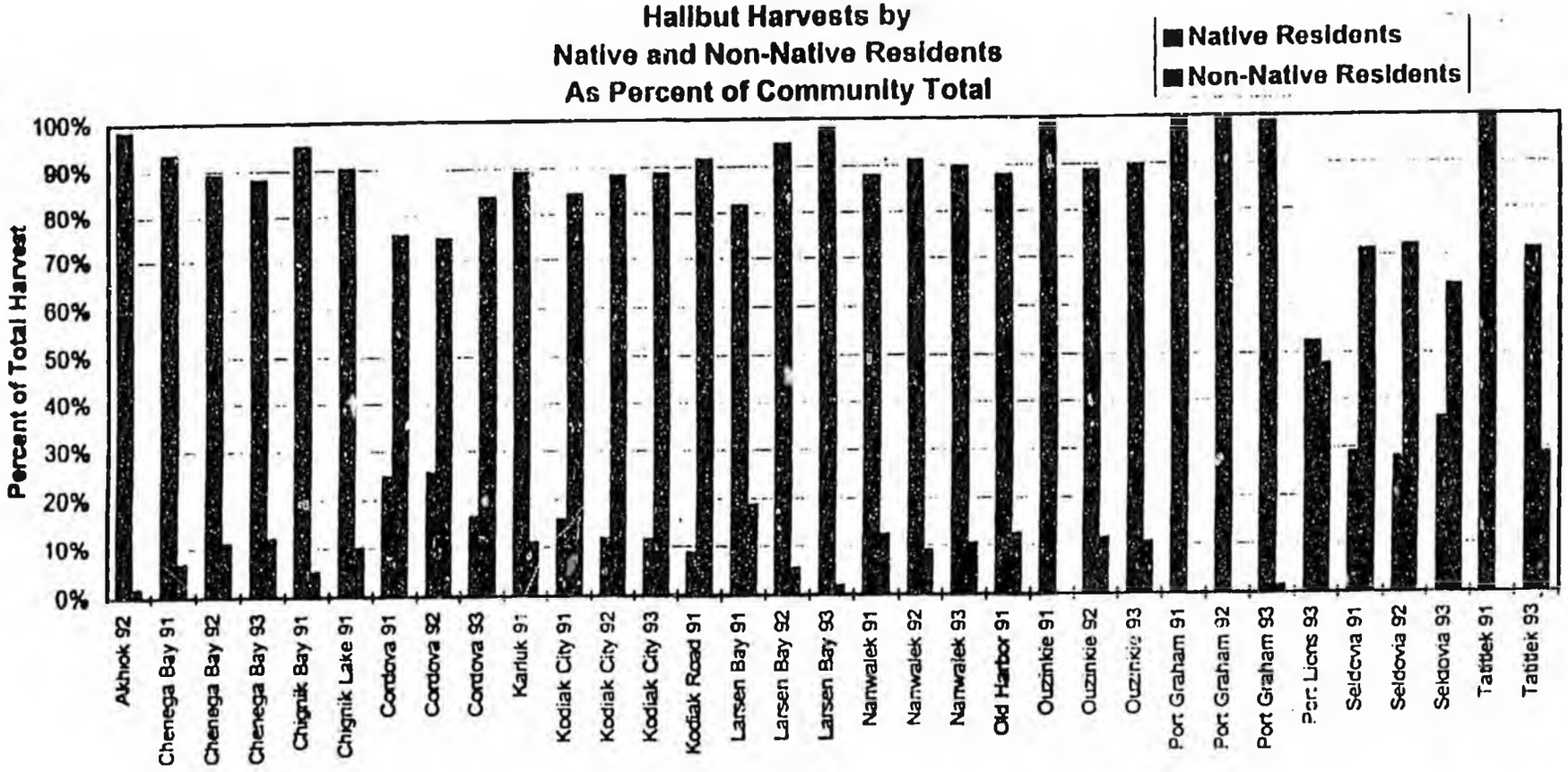

Source: Robert Wolfe, Division of Subsistence, ADFG 60A communities

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SOUTHEAST NATIVE SUBSISTENCE COMMISSION
320 West Willoughby Avenue, Suite 300
Juneau, Alaska 99801

CONCEPTS

- Subsistence halibut. "Subsistence use of halibut" refers to the noncommercial harvest and use of halibut for food by Alaska Natives and other rural residents in areas of Alaska with halibut uses.
- Eligibility. Alaska Natives and other rural residents in areas with halibut uses.
- Rural residents are persons whose principal domicile is in a rural Alaska area.
- Rural areas for the purpose of subsistence halibut regulations are areas where subsistence (wild food production and use) is a principal characteristic of the area's economy and way of life.
- Gear. Hook and line gear (including set and hand-held gear), with a maximum of 60 hooks.
- Special provisions. The commercial sale of subsistence-caught halibut is not allowed. The noncommercial sharing and exchange of subsistence-caught halibut is allowed.
- Permits. Subsistence permits may be required in particular areas if necessary for identifying subsistence fishers or special area provisions.
- Local area management plans. Local area management plans may be developed on an area basis to deal with special management issues such local stock depletion.

KIPNUK TRADITIONAL COUNCIL

Box 57 • KIPNUK, ALASKA 99614
(907) 893-8515 • FAX (907) 893-8240

HALIBUT REGULATION PROPOSAL

In absence of subsistence regulations on the halibut fishery in and around the Cape Avinoff region and after having observed a National Marine Fisheries Enforcement Officer in Toksook Bay this past season, the Kipnuk Traditional Council, on behalf of the local commercial and subsistence fishermen, want to submit the following proposal to be seriously considered to become part of the Commercial Halibut Regulations for the Cape Avinoff Region subsistence halibut fishermen in particular:

1. No limit on number of hooks to be used. (Sportfishing regulations should not be used to develop subsistence regulations.)

2. No bag limit for subsistence caught halibut. (Sportfishing regulations should not be used to develop subsistence regulations.) Traditional and culture methods are used by families in our villages to determine how much they need for subsistence purposes, and should not be regulated because of these present conditions.

3. Subsistence catch of halibut should not be considered a part of the Commercial fishery established quota.

REASONS:

1. Traditionally, our people use three hook lines and many still make traditional hooks although some use regular 1 hook rod and reel.

2. Weather is not always reliable and every trip counts, especially to catch as many halibuts they can catch. The halibut (both dried and frozen) is one of the main food groups gathered by local residents besides herring.

3. With commercially caught herring and halibut being the main economic resource for our community, we do not want subsistence caught halibut to be counted as part of the quota for commercial halibut fishing.

CONCLUSION:

Our resolution and its supplement that we submitted to IPHS, NPHS through Coastal Villages Fishing Cooperative is self explanatory and can be used for reference on this proposal. Therefore, on behalf of the local fishermen, both commercial and subsistence, we recommend that our proposal be seriously considered to become part of the Commercial Halibut Regulation under a term, 'subsistence clause."

NOTE: The Kipnuk Traditional Council is submitting this proposal in conjunction and agreement with the Toksook Bay Traditional Council. Our proposal is identical to the proposal submitted by the Toksook Bay Traditional Council, because our way of life is the same. We are closely related as families of the coast, with the same language with traditions and cultures that have a concern for the natural resources we depend on for food. Thank you for considering our proposal.

NATIVE VILLAGE OF TUNUNAK
Tununak IRA Council
P.O. Box 77
Tununak, Alaska 99681
(907)652-6527 / Fx. 652-6011

Halibut Regulation Proposal

In absence of subsistence regulations on halibut fishery in and around Nelson Island region and after having encountered a National Marine Fisheries Enforcement Officer in just past summer season, the Native Village of Tununak, on behalf of the local commercial and subsistence fishermen, want following suggestive ideas to be seriously considered to become part of the Commercial Halibut Regulation for Nelson Island Region subsistence halibut fishermen in particular:

1. No limit on number of hooks to be used. (Sportfishing regulations should not be used to develop subsistence regulations)

2. No bag limit for subsistence caught halibut. (Sportfishing regulations should not be used to develop subsistence regulations)

3. Not count subsistence catch as part of quota.

REASONS:

1. Traditionally, our people use three hook lines and many still make traditional hooks although some use regular 1 hook rod and reels, many prefer 3 hook lines for jigging.

2. Weather is not always reliable and every trip counts especially to catch as many halibut they can catch. The halibut (both dried and frozen) is the main food gathered by local residents besides herring fish.

3. With commercial herring and halibut being the main economic source for our community, we do not want subsistence caught halibut to be counted as part of the quota for commercial halibut fishing.

CONCLUSION:

Our resolution and its supplement that we submit to IPHS, NPHS through Coastal Villages Fishing Cooperative is self explanatory and can be used for reference on this proposal. Therefore, on behalf of the local fishermen, both commercial and subsistence, we recommend that our proposal be seriously considered to become part of the Commercial Halibut Regulation under "subsistence clause."

NATIVE VILLAGE OF MEKORYUK
INDIAN REORGANIZATION ACT COUNCIL
P.O. Box 66
Mekoryuk, Alaska 99630
(907) 827-8828
Fax (907) 827-8133

MEKORYUK NATIVE COMMUNITY

HALIBUT REGULATION PROPOSAL

In absence of subsistence regulations and halibut fishery in and around Nunivak Island region. On behalf of the local commercial and subistence fishermen, want the following suggestive ideas to be seriously considered to become part of the Commercial Halibut Regulations for Nelson Island Region subsistence halibut fishermen in particulars:

1. No limit on number of hooks to be used. (Sports fishing reulations should not be used to develop subsistence regulations).

2. Not count subsistence catch as part of the quota.

REASONS:

1. Traditionally, our people use two hook line and many still make traditional hooks although some use regular hook rod and reel, many prefer three-hook lines (jigging).

2. Weather is not always reliable and every trip counts especially to catch as many haliburs they can catch. The halibut (both dried and frozen) is the main food gathered by local residents.

3. With commercial halibut being the main economic source for our community, we do not want subsistence caught halibut to be counted as part of the quota for commercial halibut fishing.

CONCLUSION:

Therefore, on behalf of the local fishermen, both commercial and subsistance, we recommend that our proposal be seriously considered to become part of the Commercial Halibut Regulation under "subsistence clause."

Nightmute Traditional Council

P.O. Box 90021
Nightmute, AK 99690
(907)647-6215 Fax(907)647-6112

HALIBUT REGULATION PROPOSAL

In absence of subsistence regulations on halibut fishery in and around Nelson Island region and after having encountered a National Marine Fisheries Enforcement Officer in just past summer season, the Nightmute Traditional Council, on behalf of the local commercial and subsistence fishermen, want following suggestive ideas to be seriously considered to become part of the Commercial Halibut Regulations for Nelson Island Region subsistence halibut fishermen in particular:

1. No limit on number of hooks to be used. (Sport fishing regulations should not be used to develop subsistance regulation.)

2. No bag limit for subsistance caught halibut. (sport fishing regulations should not be used to develop subsistance regulations)

3. Not count subsistance catch as part of the quota.

REASON:

1. Traditionally, our people use three hook line and many still take traditional hooks although some used regular hook rod and reel, many prefer three-hook lines. (jigging)

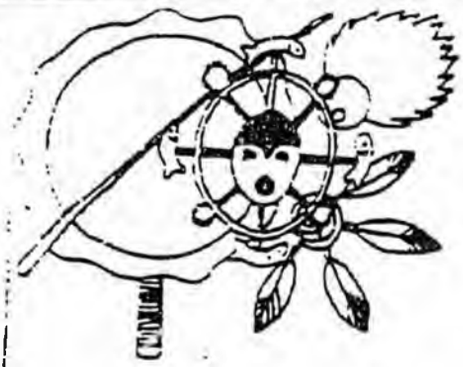
2. Weather is not always reliable and every trip counts especially to catch as many halibuts they can catch. The halibut (both dried and frozen) is the main food gathered by local residents besides herring fish.

3. With commercial herring and Halibut being the main economic source for our community, We do not want subsistence caught halibut to be counted as part of the quota for commercial halibut fishing.

CONCLUSION:

Our resolution and its supplement that we submit to IPHC, NPFC through Coastal Village Fishing Cooperative is self explanatory and can be used for reference on this proposal.

Therefore, on behalf of the local fishermen, both commercial and subsistence, we recommend that our proposal be seriously considered to become part of the Commercial Halibut Regulation under "subsistence clause."



Toksook Bay Traditional Council

TOKSOOK BAY NATIVE COMMUNITY

HALIBUT REGULATION PROPOSAL

In absence of subsistence regulations on halibut fishery in and around Nelson Island region and after having encountered a National Marine Fisheries Enforcement Officer in just past summer season, the Toksook Bay Traditional Council, on behalf of the local commercial and subsistence fishermen, want following suggestive ideas to be seriously considered to become part of the Commercial Halibut Regulations for Nelson Island Region subsistence halibut fishermen in particular:

1. No limit on number of hooks to be used. (Sportfishing regulations should not be used to develop subsistence regulations)

2. No bag limit for subsistence caught halibut. (Sportfishing regulations should not be used to develop subsistence regulations)

3. Not count subsistence catch as part of the quota.

REASONS:

1. Traditionally, our people use three hook line and many still make traditional hooks although some used regular 1 hook rod and reel, many prefer three-hook lines.(jigging)

2. Weather is not always reliable and every trip counts especially to catch as many halibuts they can catch. The halibut (both dried and frozen) is the main food gathered by local residents besides herring fish.

3. With commercial herring and halibut being the main economic source for our community, we do not want subsistence caught halibut to be counted as part of the quota for commercial halibut fishing.

CONCLUSION:

Our resolution and its supplement that we submit to IPHS, NPHS through Coastal Village Fishing Cooperative is self-explanatory and can be used for reference on this proposal. Therefore, on behalf of the local fishermen, both commercial and subsistence, we recommend that our proposal be seriously considered to become part of the Commercial Halibut Regulation under "subsistence clause".

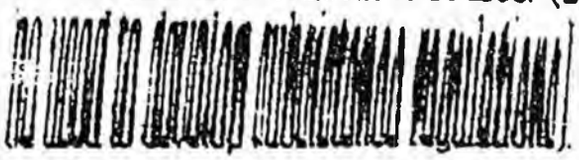
P.O. Box 37048, Toksook Bay, Alaska 99637-7048 (907) 427-7114 FAX (907) 427-7714

Newtok Traditional Council
P O Box 5545 • NEWTOK, ALASKA 99559 • Telephone (907)237-2314 • Fax (907)237-2428

HALIBUT REGULATION PROPOSAL

In absence of subsistence regulations on halibut fishery in and around Nelson Island region and after having encountered a National Marine Fisheries Enforcement Officer in just this past summer season, the Newtok Traditional Council, on behalf of the local commercial and subsistence fishermen, want following suggestive ideas to be seriously considered to become part of the Commercial Halibut Regulations for Nelson Island Region subsistence halibut fishermen in particular

1. No limit on number of hooks to be used. (Sportfishing regulations should not



2. No bag limit for subsistence caught halibut. (Sportfishing regulations should not be used to develop subsistence regulations).

3. Not count subsistence catch as part of the quota

Reasons

1. Traditionally, our people use three hook line and many still make traditional hooks although some used regular hook rod and reel, many prefer three-hook lines. (jigging)

2. Weather is not always reliable and every trip counts especially to catch as many halibuts they can catch. The halibut (both dried and frozen) is the main food gathered by local residents besides herring fish.

3. With commercial herring and halibut being the main economic source for our community, we do not want subsistence caught halibut to be counted as part of the quotas for commercial halibut fishing.

CONCLUSION:

Our resolution and its supplement that we submit to IPHS, NPHS through Coastal Village Fishing Cooperative is self-explanatory and can be used for reference on this proposal. Therefore, on behalf of the local fishermen, both commercial and subsistence, we recommend that our proposal be seriously considered to become part of the Commercial Halibut Regulation under "subsistence clause"

Title: Halibut as a Customary and Traditional Subsistence Resource of Alaska Natives
Submitted by Southeast Native Subsistence Commission

WHEREAS, halibut is a customary and tradition resource for Alaska Natives; ancient Tlingit halibut hooks were designed to allow only harvestable-sized fish to be taken; and

WHEREAS, halibut continue to be a vital subsistence food source in coastal Native communities, an essential food at cultural celebrations, and important for sharing with elders and others who cannot harvest for themselves; and

WHEREAS, ANILCA Title VIII provides for the harvesting of fish and wildlife resources for subsistence usage in a non-wasteful manner; and

WHEREAS, Natives have been cited for harvesting halibut because of exceeding the bag limit of two fish per day and for using a long line with multiple hooks; and

WHEREAS, these regulations are not reflective of Native communities' customary and traditional methods, means, bag limits, and sharing; and

WHEREAS, these regulations are ethnocentric and have been difficult to change, due to lack of action from the concerned government agencies: the State of Alaska, National Marine Fisheries Service, the North Pacific Fisheries Management Council, and the International Pacific Halibut Commission.

NOW, THEREFORE, BE IT RESOLVED that the General Assembly of the Alaska Federation of Natives respectfully request that managing agencies recognize and acknowledge that halibut is a customary and traditional subsistence resource and that they allow Alaska Natives to use efficient means of harvest, including multiple hooks, rod and reel, and long line gear.

BE IT FURTHER RESOLVED, that this resolution be sent to the State of Alaska Board of Fisheries, to the National Marine Fisheries Service, to the North Pacific Fisheries Management Council, and the International Pacific Halibut Commission.

Approved for submission by participants at the Bering Sea Fishermen's Association workshop on Wednesday October 16th @ 1 P.M.

Attest: Dan Albrecht, Program Director
Bering Sea Fishermen's Ass'n

To MATT KOOKESH	From R. WESTIKA
Co./Dept.	Co.
Phone #	Phone #
Fax #	Fax #

Sixty-First Annual General Assembly
CENTRAL COUNCIL OF TLINGIT AND HAIDA INDIAN TRIBES OF ALASKA
April 17-20, 1996
Juneau, Alaska

Resolution 96-13
Title: HALIBUT IS A CUSTOMARY & TRADITIONAL SUBSISTENCE RESOURCE OF ALASKA NATIVES
Submitted by: Angoon T&H Community Council

WHEREAS, halibut is a customary and traditional resource for Alaska Natives; ancient Tlingit halibut hooks were designed to allow only harvestable-sized fish to be taken; and

WHEREAS, ANILCA provides for the harvesting of fish and wildlife resources for subsistence usage in a non-wasteful manner; and

WHEREAS, Natives have been cited for harvesting halibut because of exceeding the bag limit and for using a long line with multiple hooks; and

WHEREAS, Natives have had to endure regulations that only allow 2 halibut and a hand-held line with two hooks; and

WHEREAS, these regulations are not reflective of Native communities' customary and traditional methods, means and bag limits; and

WHEREAS, these regulations are ethnocentric and are difficult to change, due to lack of action from both the State and the International Pacific Halibut Commission (IPHC) which will not address this issue until the State does.

NOW, THEREFORE, BE IT RESOLVED that the General Assembly of Tlingit and Haida Central Council respectfully request the assistance of Alaska's delegation in Washington D.C. to amend the Northern Pacific Halibut Act, "To recognize and acknowledge halibut as a customary and traditional subsistence resource, and to assure subsistence harvesting of halibut by Alaska Natives is protected."

BE IT FURTHER RESOLVED that the Central Council also request the Board of Fisheries endorse this resolution with a follow-up letter of support.

BE IT FURTHER RESOLVED that copies of this resolution be sent to Southeast Native Subsistence Commission, the International Pacific Halibut Commission, Board of Fisheries.

HJR

35

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. HJR 35

Dept. Affected
Title: Encouraging Federal Legislation to improve federal fiscal terms for TAGS
BRU:
Sponsor: House Special Comm. on Oil & Gas
Components:
Requestor:
Serial #

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
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	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (THOUSANDS OF DOLLARS)

General Fund	0.0	0.0	0.0	0.0	0.0	0.0
Federal Fund	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

POSITIONS:

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)
see attached analysis

Prepared by: Co-Chair Scott Ogan
House Resources Committee
Date: 4/13/97
Phone: 465-3715
Phone:

ALASKA STATE LEGISLATURE

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REPRESENTATIVE MARK D. HODGINS
House District 9

Sponsor Statement

HJR 35

Encouraging federal legislation to improve federal fiscal terms for a trans-Alaska gas pipeline.

HJR 35 is a statement by the 20th Alaska Legislature urging Alaska's congressional delegation to enact legislation that would seek to improve the competitiveness of the trans-Alaska gas pipeline.

The State of Alaska recently commissioned a report, by Dr. Pedro Van Meurs, on the economic viability of the trans-Alaska gas line. Dr. Van Meurs found that the project would need some state and federal fiscal adjustments in order to stimulate the project investment structure. **HJR 35** will encourage Alaska's congressional delegation to sponsor the fiscal legislation necessary to complete the federal portion of the fiscal package.

There is already ample justification to adopt favorable legislation for the gas line from a federal perspective. The trans-Alaska gas line project would establish a substantial new source of taxable income. Billions of dollars would be generated in federal corporate income tax. Based on a scenario of $3.50 per million cubic feet (mcf) and an estimated cost of $12 billion the project would generate approximately $26.7 billion in tax income for the federal government over a 30 year period. The project could also improve the United States trade deficit with Asian countries.

We have heard, repeatedly, that the Asian market window for natural gas sales will begin around 2005. The Asian market is eager to purchase north slope gas and Alaska must proceed immediately with the gas project if we are to participate in this market window. Fierce competition among suppliers is expected from foreign gas projects and therefore Alaska needs to offer a coordinated proposal at a competitive price. Given the short time frame for establishing an economically viable project, it is important to begin the formation of a fiscal platform as soon as possible. By coordinating our efforts we will shorten the timetable needed to bring this project on line and thereby increase Alaska's ability to establish a place in the competitive LNG market.

The need for a unified message from Alaska is critical in portraying fiscal and political stability as well as instilling confidence within the Asian marketplace. It is imperative that the Federal government, State of Alaska, and Local governments work together toward a unified position that will enhance the economic competitiveness to bring this project from concept into actuality. **HJR 35 will assist in that capacity.**

SUGGESTIONS FOR NEW TERMS FOR THE ALASKA NORTH SLOPE LNG PROJECT

EXECUTIVE SUMMARY

by

Dr. A. Pedro H. van Meurs
February 12, 1997

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SUGGESTIONS FOR NEW TERMS FOR THE ALASKA NORTH SLOPE LNG PROJECT

1. INTRODUCTION

The North Slope of Alaska contains natural gas reserves of about 35 trillion cubic feet. Most of these reserves are contained in the Prudhoe Bay field. One of the ways in which these reserves can be produced is through the export of the gas in the form of LNG (liquid natural gas).

A possible LNG project could be an important source of revenues for the State of Alaska and would create significant employment and business opportunities. It is therefore important for the State of Alaska to analyze the possible optimal fiscal conditions under which this project would become a reality.

The Revenue Department of the State of Alaska requested the consultant to provide a report on possible new fiscal and other terms for the Alaska North Slope LNG project. The study is based on a comparative analysis of international LNG terms and conditions. This executive summary reflects the main conclusions and recommendations of this analysis.

2. PROJECT DESCRIPTION

A possible initial LNG project could produce and export about 14.5 million tons of LNG per year. This level might be reached over a six year period increasing sales volumes by about 2.5 million tons per year. The project would use initially the gas reserves of the Prudhoe Bay field. A large conditioning plant, a large diameter gas pipeline and a liquefaction facility in Valdez would be required. A fleet of about 14 LNG tankers would ship high Btu gas to East Asian markets starting in the 2005 - 2010 period. This project configuration was used as the basis for the recommendations in this executive summary.

Alternative configurations of the project are also possible. A gas pipeline could be built to the northwestern Alaska coast and ice-breaking LNG tankers could be used for the gas export. The Point Thomson gas reserves could be used from the start of the project.

The ramp-up speed is an important economic variable in the project and could be faster than the 6 years assumed in the basic project configuration.

In the case of the Alaska North Slope LNG project the competitive conditions do not only apply to the profitability of the investment opportunities, but relate also to the market access of the gas. The fiscal system has to enable investors to conclude the necessary gas sales in the East Asian region.

One of the consequences is that the fiscal structure Alaska LNG project as a whole - the upstream and well as the downstream - has to be considered.

3.2.2 STRUCTURE OF THE GOVERNMENT TAKE

With respect to the structure of the government take there are two important issues, which are progressivity and back-end loading.

3.2.2.1 PROGRESSIVITY

A progressive fiscal system is a system whereby the government take is modest in case of conditions of low profitability and high in case of high profitability. A progressive fiscal system achieves the highest level of economic activity in conjunction with the highest level of economic rent extraction.

A regressive fiscal system is a system whereby the government take is high in case of conditions of low profitability and low in the case of high profitability. A regressive system results in a situation where marginal projects will not be undertaken and whereby the government is not earning the highest possible economic rent in case of high profitability.

The most efficient way to promote optimal economic activity with effective economic rent collection is therefore to adopt a progressive system.

It should be noted, however, that progressive systems have a drawback for governments. They result by their very nature in important swings in government revenues if there are important changes in prices or costs. In order to properly manage a progressive fiscal system a government has to have a "buffering" system in place, such as a special fund to which government contributes when prices are high and which the government could use in case prices are low.

At the same time it should also be noted that large corporations look for "upside" in an investment and a severe reduction of the upside would reduce the investors interest in the project.

4.1.1 UPSTREAM

4.1.1.1 BONUSES

Alaska employs a system of competitive bonus bidding for the allocation of acreage.

4.1.1.2 RENTALS

Surface rentals in the Prudhoe Bay area are $ 1 per acre.

4.1.1.3 ROYALTIES

Royalties for Prudhoe are 12.5% of the value at the lease boundary. A processing allowance of $ 0.18 per Mcf is permitted for gas as a deduction from this value. This allowance escalates with inflation.

4.1.1.4 SEVERANCE TAX

The severance tax rate for oil is 12.25% for the first 5 years and 15% thereafter and for gas it is 10%. The severance tax is calculated on the value at the lease boundary less royalties. For gas there is a processing allowance of $ 0.20 per Mcf (assumed pending draft regulations). Also there is minimum severance tax of $ 0.064 per Mcf regardless of the price.

The severance tax for oil and gas is reduced by the Economic Limit Factor (ELF). This factor varies between 0 and 1 and depends on the daily well production in the case of oil and gas and also total daily field production in the case of oil.

4.1.1.5 CORPORATE INCOME TAX

The federal corporate income tax rate is 35%. Losses can be carried forward and interest is a deductible expense. Depreciation for federal purposes varies from asset class to asset class and is based on the MACRS system. Typically, the conditioning plant would be depreciated over 8 years.

The Alaska corporate income tax rate is 9.4% applied on a unitary world-wide basis of income. The experience of Alaska is that Alaska only receives about half this amount as a result of the apportionment procedures. The Alaska corporate income tax is deductible for federal corporate income tax purposes, creating a total tax rate of 41.1%.

On average, the total Alaska fiscal system (Federal, State and local) is:

-- slightly regressive or slightly progressive on a total project basis depending on the economic conditions and the tax position of the investor, and

-- front-end loaded.

This means that the Alaska fiscal system is not optimal for an LNG project.

The rate of return to the investors is less than it needs to be. The rate of return is particularly negatively affected under marginal economic conditions. However, under high price scenarios, the total government take is less than it could be.

The current Alaska fiscal system could therefore be improved in order to make the LNG project more attractive by making the project more profitable and less risky. The system could also be improved by making it a more effective economic rent collector.

5. COMPARATIVE ECONOMICS

5.1 FINANCIAL EVALUATION CRITERIA

5.1.1 HURDLE RATE

Probably the most important yardstick for assessing the profitability of the Alaska project is the "hurdle rate".

The hurdle rate is the minimum cashflow rate of return that the project has to have in order to be considered economically attractive by the investors. Many companies determine the hurdle rate after all taxes and before financing. The hurdle rate can be determined on a current or constant dollar basis. The hurdle rate depends on many factors, such as the rate of return of other opportunities, the average cost of capital, the project risks and financing opportunities.

Hurdle rates are different from company to company because the factors that determine the hurdle rate are different for each company. This means that some companies may consider a project profitable while others may not. For large projects, companies may have different hurdle rates per project depending on the project risk.

This indicates that the competitive rate of return for LNG projects that are being launched at this moment is in the range of 13 - 17% for the price range of $ 3.50 to $ 3.90 per MMBtu CIF Korea or Japan on a total project basis.

5.1.1.2 COST OF CAPITAL

The hurdle rate has to be equal to or higher than the weighted average cost of capital after adjustment for risk. The weighted average cost of capital of a company is the after tax cost of all its capital sources in the form of debt and equity. For large oil corporations with a relatively modest debt, the current cost of capital can estimated in the range of 9% to 11%. It is not economic for a corporation to invest in a project if the project does not make at least a rate of return that is equal to the weighted average cost of capital after adjustment for risk.

Successful companies have projects with rates of return that are above the weighted average cost of capital.

5.1.1.3 ALASKA PROJECT RISK

The relative risks of the projects is also an important factor in deciding about the attractiveness of a project and in deciding about the hurdle rate for the project. It should be noted that relatively speaking the Alaska project cannot be considered a low risk project under current conditions. There is a great variety of project risks. The following table is a comparison between the Alaska project and the Ras Laffan project of the project risks involved:

RELATIVE PROJECT RISK ALASKA - RAS LAFFAN		
	Alaska	Ras Laffan
RISKS:		
Regional conflict risk	Very Low	Very High
General country risk	Low	Average
Gas reserve risk	Low	Very Low
Gas price risk	Aver - High	High
Regulatory/legal risk	High	Low
Risk of cost overruns	High	Low
Market access risk	High	Average
Fiscal stability risk	High	Low

5.1.1.4 FINANCING

With respect to the Alaska LNG project it is important to emphasize that the analysis of the project on a no-financing basis does not do the Alaska project justice. In the United States, interest is a tax deductible expense. Furthermore, the financial markets perceive North America as a low risk area in which a high leverage of the downstream operations is possible.

Finally, the incremental investments in the Alaska LNG project are primarily in downstream operations which are highly financeable.

The high degree of financeability of the downstream operations makes the incremental cost of capital less than the weighted average cost of capital of the corporation.

Given these considerations it is important to consider the comparative economics either on an after financing basis or provide some decrease in the hurdle rate in order to recognize these factors. The rate of return after financing would be the rate of return on equity ("Project ROE"). This means the rate of return on total capital less the debt.

5.1.1.5 TOTAL PROJECT VERSUS ITS COMPONENTS

The risk on the total project and its components are not necessarily the same. The downstream components could be constructed under relatively low risk contractual arrangements with the producers. The producers would run the risk of cost overruns, price declines and other risks.

Therefore, for the determination of the netback value and for royalty purposes one would use a rate of return that is lower than the total project rate of return and would represent the lower risk. Also the costs of capital for the downstream components is typically lower than for the upstream component. The rate of return would be a Cost of Service rate of return.

In order to assume all the project risks, the liquid penalty and earn a reasonable return on the project development investments, the producers will have to have a reasonable minimum netback value for the gas. It can be estimated that this value is about $ 0.98 per Mcf. If downstream operators would assume more risk, this value could be lower but in this case the cost of service of the downstream operations increases because of the need for a higher rate of return in order to assume this risk.

The rate of return is dependent on the ramp-up speed of the project. A unique feature of the Alaska project is that a long distance high cost gas pipeline is required. The quicker this line can be filled with production, the higher the rate of return will be. If the ramp-up would be 3 years, the ROR would be approximately 0.7% higher. Such a fast ramp up, however, is improbable due to market restrictions. Currently, the total Pacific LNG market is increasing by about 2.5 million tons per year and many projects compete in this market.

It therefore appears that the Alaska North Slope LNG project is not economic under current conditions, even if the costs could be dropped to $ 12 billion and the ramp-up speed could be increased.

However, improvements in the fiscal system together with a reduction of project risk could make the project attractive.

5.3 ALASKA PROJECT ON THE BASIS OF OTHER FISCAL SYSTEMS

5.3.1 OVERALL FISCAL BURDEN

The overall fiscal burden imposed by Alaska on a possible LNG project is tough in comparison with other LNG exporting countries.

The relative burden can be most accurately measured by applying the fiscal terms of other jurisdictions to Alaska North Slope economics.

In such a comparison the economics of Alaska, Canada and Australia are measured on a consolidated basis and the economics of the other LNG exporting countries is measured on a stand alone basis. The following table provides the comparative analysis of the ROR for two scenarios, $ 15 billion costs with a price of $ 3.50 and $ 13.5 billion costs with a price of $ 3.90:

This is a very strong indication that the Alaska fiscal terms are not competitive with the "outer circle-high cost" jurisdictions.

5.3.2 STRUCTURE OF THE GOVERNMENT TAKE

An important issue in international fiscal systems is the structure of the fiscal system. The structure of the fiscal system can be analyzed by reviewing the level of government take under various scenarios.

The government take is defined as the percentage that the government obtains of the economic rent. The government take is usually expressed as a percentage of the undiscounted rent, although economic rent is usually determined on a discounted basis.

The following table provides the undiscounted government take in percent for the two scenarios:

GOVERNMENT TAKE OF DIFFERENT FISCAL SYSTEMS BASED ON ALASKA ECONOMICS			
	Costs/price:	15B- $ 3.50	13.5B- $ 3.90
	Project:		
ALASKA	North Slope	40.4%	41.7%
INNER CIRCLE-LOW COST:			
Brunei	Lumut	46.6%	49.8%
Indonesia	Arun	57.5%	59.9%
Malaysia	Bintulu I ,II	61.2%	66.4%
Malaysia	Bintulu III	61.2%	66.4%
Vietnam	Offshore	38.2%	47.9%
OUTER CIRCLE-HIGH COST:			
Abu Dhabi	Das Island	44.4%	45.6%
Australia	All projects	33.7%	36.1%
Canada	PACRIM	35.2%	39.9%
Indonesia	Irian Jaya	48.7%	50.7%
Indonesia	Natuna	25.6%	25.9%
Oman	Shell	21.6%	19.4%
PNG	Hides	27.3%	28.1%
Qatar	Qatargas	33.1%	30.8%
Qatar	Ras Laffan	34.4%	33.7%
Russia	Sakhalin II	37.5%	38.2%
Yemen	Hunt	35.3%	49.5%

This means that the "outer circle-high cost" countries compete by introducing one or more of the following fiscal concepts in their fiscal system:

- -- a lower government take
- -- a progressive government take, making the $ 3.50 case more attractive,
- -- a back-end loaded government take, or
- -- investment "subsidies".

Alaska employs none of these features and it is therefore that the Alaskan terms are the least attractive for investors among the "outer circle-high cost" jurisdictions.

In addition to the basic government take, many jurisdictions employ direct government equity participation in the project. This is in particular the case for Qatar, Abu Dhabi, Oman, Yemen, Brunei and PNG. This increases the government take on a "Participation" basis substantially. However, these governments share in this case the commercial risks with the investors.

5.4 COMPETITIVE POSITION RELATIVE TO OTHER PROJECTS

5.4.1 ALASKA ON THE TIME LINE

The projects in Qatar (Ras Laffan and Qatargas), Oman and the NW Shelf expansion project all are ahead on the time line relative to Alaska. The Qatargas project has already started. Oman and Ras Laffan have already specific sales contracts.

The total production capacity of the four projects together is 23.4 million tons of LNG per year. As indicated, the projects also have a Project ROR which are more attractive than the current Alaska project. It is unlikely that the Alaska North Slope project could be launched ahead of these projects.

The Alaska project would therefore primarily compete with a second tier of projects.

5.4.2 COMPETITION WITH RESPECT TO SECOND TIER PROJECTS

The economic information on most of these projects is still rather limited. Project ROR figures for these projects are therefore only indicative. Only very generalized economic analysis can be done with a wide range of error.

5.5 EFFECT OF TIME ON THE PROJECT

The effects of time on the Alaska LNG project are important.

As indicated earlier, the ramp-up speed could add about 0.7% to the Project ROR if the ramp up time could be reduced from 6 to 3 years. It is likely that the ramp up time could be reduced somewhat over time.

By the year 2010 the Pacific markets may increase at a rate of 3 million or more per year instead of 2.5 million tons per year. This might result in a situation where the ramp up time could be reduced to 5 years or 4.5 years. This would increase the rate of return and make the market access risk less.

At the same time the liquid loss which is estimated at 384 million barrels if the project starts in 2005 might be reduced to less than half this amount by the year 2010. This would add about 0.2% to the Project ROR.

A general benefit to Alaskan's might be that over time the CIF prices for gas in East Asia may increase in real terms, creating a considerably higher economic rent which in turn would result in much higher government revenues.

The main drawback of delays in the Alaska project is that the project may be "nibbled to death" by small projects coming in ahead of the Alaska project. Petroleum exploration in Asia used to be primarily for oil. Gas was considered a by-product. However, the strongly emerging gas markets in Asia have now created a situation where petroleum companies are now exploring for gas.

Exploration in Thailand, Pakistan and China is in many cases aimed at discovering gas. Vietnam may shortly initiate a program aimed at making gas exploration more attractive. Therefore, it can be expected that many gas discoveries will be made during the next decade.

At the same time the economics of small LNG liquefaction facilities is improving.

All such conditions could lead to a situation where Alaska may be delayed.

6. INCREASING PROFITABILITY

In order for the Alaska LNG project to take place the competitiveness and profitability of the project have to be increased. This can only be achieved on the basis of:

a) an active program on the part of the corporations in order to evaluate whether costs can be reduced, and

b) a cooperative approach between the State Government, the Federal Government and the local governments with respect to improving fiscal terms and reducing project risk.

Unless all four parties are willing to make a contribution to increasing the competitiveness and reducing the risk of the project, it would be difficult to reach the minimum objectives.

The increase in competitiveness should be primarily achieved by reducing the government take on the downstream portion of the project. By reducing the government take on the downstream, the netback value will be increased which in turn will lower the cost overrun risk and the price risk. This risk can be further reduced by reducing the upstream government take under conditions of low netback prices.

6.1 STATE AND FEDERAL INCENTIVES

The State and the Federal government could seek to improve the competitiveness of the project considerably by solving two important issues:

-- the slow rate of depreciation, and
-- the high combined tax rate.

6.1.1 ACCELERATION OF DEPRECIATION

The depreciation should preferably be brought in line with worldwide conditions for LNG plants. This means that an accelerated depreciation of 20% straight line per year should be the target. The change in depreciation should be proposed in such a way that it does not result in impacts on other tax payers.

Additionally one should consider a property tax holiday of 10 years from the end of the ramp-up period. However, one might consider a compensation package for the municipalities for this benefit.

For instance, the compensation could be in the form of "free" natural gas delivered to the municipalities at the pipeline in exchange for the property tax holiday and in lieu of the payment of property tax. Also agreement would need to be reached on the detailed calculation methods of the property tax.

There would be ample justification for the proposed measures from the point of view of the local governments. The project would bring considerable employment and business opportunities and would provide low cost clean energy and a considerable future source of property tax income.

6.3 *STATE INCENTIVES*

6.3.1 RELIEF ON MINIMUM SEVERANCE TAX

The State could remove the minimum severance tax in order to enhance the ability for the sellers of the gas to negotiate the lowest possible minimum sales price in case of oil price declines. Asian buyers are very concerned about minimum sales prices.

6.3.2 ROYALTY AND SEVERANCE TAX RELIEF

The current 12.5% royalty and the 10% severance tax are front-end loaded The project risk could be reduced and the profitability under low netback conditions could be enhanced with a lower fiscal burden under these conditions. This relief is part of a more general restructuring of the royalty and severance tax to be described in the next chapter.

6.3.3 DETERMINATION OF NET BACK VALUE FOR ROYALTY AND SEVERANCE TAX PURPOSES

It can also be recommended to establish a more detailed and specific system on how the netback price for royalty and severance tax purposes would be calculated. The netback price should be based on the principle that each of the downstream components of the project should be a viable business by itself. A cost of service type rate of return should be included in the calculation of the cost of marine shipping, liquefaction, pipeline transport and conditioning for royalty net back value purposes.

The single new royalty could be made more progressive back-end loaded by:

-- removing the severance tax for gas,

-- introducing a higher royalty in combination with a higher royalty allowance, and

— by making this royalty time related.

7.2 CREATION OF PROGRESSIVITY AND BACK-END LOADING

Very important variables in the creation of economic rent are the CIF price of gas and the downstream costs. A high price and low downstream costs create automatically a large economic rent. It is in the interest of Alaska to capture a large share of the economic rent that might be generated.

The royalty could be made more sensitive to the netback value by increasing the current allowance of $ 0.18 per Mcf to, for instance, $ 0.60 per Mcf. The average project royalty could be increased at the same time to, for instance, 30%.

This average royalty could then be re-distributed over a time frame related to the project. The royalty could start at 5% during the construction and ramp-up phase and could go up to rather high levels of say 40 - 60% depending on the detailed provisions of the formula that is applied. Such a formula needs careful consideration.

The creation of a progressive and back-end loaded royalty system make the determination of the net-back value for royalty purposes an essential component of the overall fiscal system, as already discussed in section 6.3.3

Also it should be recognized that the royalty would apply under the umbrella of a specific agreement on the Phase I royalties only. The royalties applicable to a possible Phase II should be judged on the basis of the economic conditions existing at the time that the decision about Phase II is being made and should take into consideration the need for possible considerable incremental investments to put new gas fields on stream.

Finally, it should be noted that the specific royalty formula needs to be designed in the context of the total fiscal package and should therefore be based on the final form of agreements reached between the levels of government.

Also the distribution of risks and benefits of the State of Alaska is very different from the private investors. The State of Alaska will benefit from Phase II. The specific initial project investors might or might not.

Therefore, the State of Alaska could assume project risk by partially financing the project with long term loans.

The atractiveness of the project could increase if the State could use such tax supported financing and can assume project risk by lending under favorable conditions.

8.3 INFRASTRUCTURE DEVELOPMENT

Some governments in the world have promoted the LNG exports through very considerable direct infrastructure or project support. Qatar constructed an new $ 1 billion port. Indonesia assumes the construction and financing costs of the liquefaction plants and charges private investors for liquefaction on a cost basis.

The State of Alaska may be able to provide similar support to the project. This may be the case for improvements in the port in Valdez or similar infrastructural works.

8.4 FISCAL STABILITY

The ANS LNG project will not occur without a significant enhancement of the stability of the fiscal terms. The profitability of the project depends entirely on a comprehensive set of fiscal and financial measures. Without these measures the project is uneconomic. As a result, there has to be an acceptable degree of fiscal stability before investors can risk the investment in such a large project.

This fiscal stability does not exist at this time. The State of Alaska has the unilateral right to change taxes. This applies to severance taxes, property taxes and corporate income tax. All these taxes are major components of the fiscal structure.

Even if the current government would agree to a new fiscal package, the next government could change it. The State of Alaska could therefore take a number of measures that would help in establishing an environment of fiscal stability. Several measures are possible.

It seems that a reasonable middle ground could be the following:

-- the State Legislature could pass a law permitting the government to enter into fiscal agreements for specific projects for a specific time period, for instance, no longer than 25 years (5 years for development and 20 years production),

-- any such agreements would have to be specifically approved by the State Legislature,

-- if the fiscal system changes in the future, such changes would not be applicable to the project for which the agreement exists and such agreements would be "grandfathered" under any such new law changing the fiscal system,

-- it could be understood that the agreement could only be canceled or amended on the basis of a specific new law by the State Legislature.

This process does not provide for absolute fiscal stability, but it would come as close as one could reasonably hope for in the North American context. A formal agreement with the investors signed by the State and approved by the State Legislature would have a tremendous moral weight and it would be very damaging for the image of the State if the agreement would be unilaterally canceled or amended.

8.4.5 FINANCING PACKAGE

The long term State supported financing package may help to solidify the fiscal stability. The package may include certain conditions that would link the package to the fiscal stability. Since the State of Alaska would have guaranteed the financing package to the lenders, this would create considerable additional comfort on the part of the investors that the fiscal stability will "hold".

8.4.6 PARTICIPATION

The equity participation provisions could be part of the overall fiscal stability agreement.

For the $ 3.90 scenario the desirable target rate would still not be reached, which means that the Alaska LNG project still would not compare very well with other LNG projects around the world under this price scenario or higher price scenarios.

On the other hand, the project rates relatively better under lower price scenarios and would rate very high on a ROE basis. Also the minimum netback price of about $ 0.90 per Mcf would be far exceeded at the $ 3.90 CIF price level.

9.3 REDUCTION OF RISK

The proposed fiscal structure reduces cost overrun risk and price risk.

The State of Alaska could reduce project risk further through a detailed contractual arrangement with the producers, involving fiscal stability and a detailed definition of terms, including detailed calculation procedures for all fiscal components.

Based on such a package that involves considerable risk reduction companies may be prepared to consider a risk adjusted hurdle rate of 12%, based on CIF prices of $ 3.50 per MMBtu.

The combination of improved fiscal terms and risk reduction may result in an overall situation where the project would be considered profitable and attractive by the producers. From that point onwards it would be the actual development of LNG market conditions that would determine when the project could be launched in the 2005 - 2010 time period.

9.4 OTHER FACTORS

Apart from the three factors indicated above, further factors could help in bringing the project about.

A shorter ramp-up time of 4.5 or 5 years could add another 0.5% to the Project ROR. Based on the new fiscal package and the risk reduction agreement with the State of Alaska, it might be possible to convince buyers that a faster ramp up would be attractive.

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. HJR 35

Dept. Affected
Title: Encouraging Federal Legislation to improve federal fiscal terms for TAGS
BRU:
Sponsor: House Special Comm. on Oil & Gas
Components:
Requestor:
Serial #

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
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	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (THOUSANDS OF DOLLARS)

General Fund	0.0	0.0	0.0	0.0	0.0	0.0
Federal Fund	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

POSITIONS:

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)
see attached analysis

Prepared by: Co-Chair Scott Ogan
House Resources Committee
Date: 4/13/97
Phone: 465-3715
Phone:

The following table represent the Federal and State undiscounted government take under the various options

GOVERNMENT TAKE FOR VARIOUS IMPROVEMENTS IN FISCAL TERMS								
	"No Financing"				"Financing"			
	$ 3.50		$ 3.90		$ 3.50		$ 3.90	
	State	Fed	State	Fed	State	Fed	State	Fed
	%	%	%	%	%	%	%	%
Alaska - $12 billion	**13.8**	**28.1**	**15.4**	**27.8**	**12.6**	**26.1**	**14.3**	**26.1**
20% Depreciation	15.7	27.7	16.5	27.5	14.7	25.5	16.1	25.5
+10% Tax Credit	15.6	27.3	17.0	27.1	15.6	25.1	17.0	25.1
+Reduction of PT	15.3	27.4	16.7	27.2	15.6	25.1	17.0	25.1

The following table provides the netback value (entrance conditioning plant) on the basis of sales value of the production (including the gas required for energy and boiloff) The netback value is expressed in $ per Mcf.

NET BACK VALUES (production) FOR VARIOUS IMPROVEMENTS IN FISCAL TERMS				
	No Financing		Financing	
	$ 3.50	$ 3.90	$ 3.50	$ 3.90
	$/Mcf	$/Mcf	$/Mcf	$/Mcf
Alaska - $12 billion	**$ 0.64**	**$1.04**	**$ 0.55**	**$ 0.95**
20% Depreciation	$ 0.81	$ 1.21	$ 0.84	$ 1.24
+ 10% Tax Credit	$ 0.93	$ 1.33	$ 1.00	$ 1.40
+ Reduction of PT	$ 1.03	$ 1.43	$ 1.15	$ 1.55

12.2 FEDERAL - STATE OF ALASKA PACKAGE

The Federal Government will have to make some contribution to the competitiveness of the project if the project is to succeed

In approaching the Federal Government for support, it is probably most effective to request a small number of very specific items.

What is also important is that the requests for fiscal improvements should be reasonable and should not interfere with the taxation of other tax payers. Nor should the request for fiscal improvements easily lead to precedents in other corporate taxation areas

HOUSE JOINT RESOLUTION NO. 35

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Introduced: 4/10/97
Referred: Resources

A RESOLUTION

Encouraging federal legislation to improve federal fiscal terms for a trans-Alaska gas pipeline.

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

WHEREAS Alaska's North Slope, including the Prudhoe Bay and Point Thomson oil and gas fields, hold at least 35 trillion cubic feet of proven natural gas reserves, an amount sufficient to supply a large natural gas export project in the state; and

WHEREAS companies operating in the state, including permit holders, oil and gas leaseholders, and other parties, have indicated an interest in investing in a trans-Alaska gas pipeline if it is economically feasible; and

WHEREAS a study recently commissioned by the State of Alaska prepared by Dr. Pedro Van Meurs indicates that the project economics could be substantially improved through changes in federal tax laws related to this project; and

WHEREAS the United States Congress recently passed similar tax changes to facilitate development of frontier deep water oil and gas development in the Gulf of Mexico; and

WHEREAS Dr. Van Meurs' report estimated federal tax revenues under the current

structure to be $26,000,000,000, none of which will be realized if the project is not completed; and

WHEREAS there would be substantial additional benefits to the United States from the project, including increased employment opportunities across the nation and an improved trade balance with Asian countries; and

WHEREAS liquefied natural gas projects proposed for other countries are competing to meet the Asian market demand for liquefied natural gas in the 2005 to 2010 market window and could displace the Alaska project;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the United States Congress to enact tax legislation that would improve the economics and likelihood of an Alaska liquefied natural gas export project; and be it

FURTHER RESOLVED that the Alaska State Legislature respectfully requests the Governor to use his best efforts to support passage of this federal legislation.

COPIES of this resolution shall be sent 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.

SUGGESTIONS FOR NEW TERMS FOR THE ALASKA NORTH SLOPE LNG PROJECT

EXECUTIVE SUMMARY

by

Dr. A. Pedro H. van Meurs
February 12, 1997

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SUGGESTIONS FOR NEW TERMS FOR THE ALASKA NORTH SLOPE LNG PROJECT

1. INTRODUCTION

The North Slope of Alaska contains natural gas reserves of about 35 trillion cubic feet. Most of these reserves are contained in the Prudhoe Bay field. One of the ways in which these reserves can be produced is through the export of the gas in the form of LNG (liquid natural gas).

A possible LNG project could be an important source of revenues for the State of Alaska and would create significant employment and business opportunities. It is therefore important for the State of Alaska to analyze the possible optimal fiscal conditions under which this project would become a reality.

The Revenue Department of the State of Alaska requested the consultant to provide a report on possible new fiscal and other terms for the Alaska North Slope LNG project. The study is based on a comparative analysis of international LNG terms and conditions. This executive summary reflects the main conclusions and recommendations of this analysis.

2. PROJECT DESCRIPTION

A possible initial LNG project could produce and export about 14.5 million tons of LNG per year. This level might be reached over a six year period increasing sales volumes by about 2.5 million tons per year. The project would use initially the gas reserves of the Prudhoe Bay field. A large conditioning plant, a large diameter gas pipeline and a liquefaction facility in Valdez would be required. A fleet of about 14 LNG tankers would ship high Btu gas to East Asian markets starting in the 2005 - 2010 period. This project configuration was used as the basis for the recommendations in this executive summary.

Alternative configurations of the project are also possible. A gas pipeline could be built to the northwestern Alaska coast and ice-breaking LNG tankers could be used for the gas export. The Point Thomson gas reserves could be used from the start of the project.

The ramp-up speed is an important economic variable in the project and could be faster than the 6 years assumed in the basic project configuration.

In the case of the Alaska North Slope LNG project the competitive conditions do not only apply to the profitability of the investment opportunities, but relate also to the market access of the gas. The fiscal system has to enable investors to conclude the necessary gas sales in the East Asian region.

One of the consequences is that the fiscal structure Alaska LNG project as a whole - the upstream and well as the downstream - has to be considered.

3.2.2 STRUCTURE OF THE GOVERNMENT TAKE

With respect to the structure of the government take there are two important issues, which are progressivity and back-end loading.

3.2.2.1 PROGRESSIVITY

A progressive fiscal system is a system whereby the government take is modest in case of conditions of low profitability and high in case of high profitability. A progressive fiscal system achieves the highest level of economic activity in conjunction with the highest level of economic rent extraction.

A regressive fiscal system is a system whereby the government take is high in case of conditions of low profitability and low in the case of high profitability. A regressive system results in a situation where marginal projects will not be undertaken and whereby the government is not earning the highest possible economic rent in case of high profitability.

The most efficient way to promote optimal economic activity with effective economic rent collection is therefore to adopt a progressive system.

It should be noted, however, that progressive systems have a drawback for governments. They result by their very nature in important swings in government revenues if there are important changes in prices or costs. In order to properly manage a progressive fiscal system a government has to have a "buffering" system in place, such as a special fund to which government contributes when prices are high and which the government could use in case prices are low.

At the same time it should also be noted that large corporations look for "upside" in an investment and a severe reduction of the upside would reduce the investors interest in the project.

4.1.1 UPSTREAM

4.1.1.1 BONUSES

Alaska employs a system of competitive bonus bidding for the allocation of acreage.

4.1.1.2 RENTALS

Surface rentals in the Prudhoe Bay area are $ 1 per acre.

4.1.1.3 ROYALTIES

Royalties for Prudhoe are 12.5% of the value at the lease boundary. A processing allowance of $ 0.18 per Mcf is permitted for gas as a deduction from this value. This allowance escalates with inflation.

4.1.1.4 SEVERANCE TAX

The severance tax rate for oil is 12.25% for the first 5 years and 15% thereafter and for gas it is 10%. The severance tax is calculated on the value at the lease boundary less royalties. For gas there is a processing allowance of $ 0.20 per Mcf (assumed pending draft regulations). Also there is minimum severance tax of $ 0.064 per Mcf regardless of the price.

The severance tax for oil and gas is reduced by the Economic Limit Factor (ELF). This factor varies between 0 and 1 and depends on the daily well production in the case of oil and gas and also total daily field production in the case of oil.

4.1.1.5 CORPORATE INCOME TAX

The federal corporate income tax rate is 35%. Losses can be carried forward and interest is a deductible expense. Depreciation for federal purposes varies from asset class to asset class and is based on the MACRS system. Typically, the conditioning plant would be depreciated over 8 years.

The Alaska corporate income tax rate is 9.4% applied on a unitary world-wide basis of income. The experience of Alaska is that Alaska only receives about half this amount as a result of the apportionment procedures. The Alaska corporate income tax is deductible for federal corporate income tax purposes, creating a total tax rate of 41.1%.

On average, the total Alaska fiscal system (Federal, State and local) is:

-- slightly regressive or slightly progressive on a total project basis depending on the economic conditions and the tax position of the investor, and

-- front-end loaded.

This means that the Alaska fiscal system is not optimal for an LNG project.

The rate of return to the investors is less than it needs to be. The rate of return is particularly negatively affected under marginal economic conditions. However, under high price scenarios, the total government take is less than it could be.

The current Alaska fiscal system could therefore be improved in order to make the LNG project more attractive by making the project more profitable and less risky. The system could also be improved by making it a more effective economic rent collector.

5. COMPARATIVE ECONOMICS

5.1 FINANCIAL EVALUATION CRITERIA

5.1.1 HURDLE RATE

Probably the most important yardstick for assessing the profitability of the Alaska project is the "hurdle rate".

The hurdle rate is the minimum cashflow rate of return that the project has to have in order to be considered economically attractive by the investors. Many companies determine the hurdle rate after all taxes and before financing. The hurdle rate can be determined on a current or constant dollar basis. The hurdle rate depends on many factors, such as the rate of return of other opportunities, the average cost of capital, the project risks and financing opportunities.

Hurdle rates are different from company to company because the factors that determine the hurdle rate are different for each company. This means that some companies may consider a project profitable while others may not. For large projects, companies may have different hurdle rates per project depending on the project risk.

This indicates that the competitive rate of return for LNG projects that are being launched at this moment is in the range of 13 - 17% for the price range of $ 3.50 to $ 3.90 per MMBtu CIF Korea or Japan on a total project basis.

5.1.1.2 COST OF CAPITAL

The hurdle rate has to be equal to or higher than the weighted average cost of capital after adjustment for risk. The weighted average cost of capital of a company is the after tax cost of all its capital sources in the form of debt and equity. For large oil corporations with a relatively modest debt, the current cost of capital can estimated in the range of 9% to 11%. It is not economic for a corporation to invest in a project if the project does not make at least a rate of return that is equal to the weighted average cost of capital after adjustment for risk.

Successful companies have projects with rates of return that are above the weighted average cost of capital.

5.1.1.3 ALASKA PROJECT RISK

The relative risks of the projects is also an important factor in deciding about the attractiveness of a project and in deciding about the hurdle rate for the project. It should be noted that relatively speaking the Alaska project cannot be considered a low risk project under current conditions. There is a great variety of project risks. The following table is a comparison between the Alaska project and the Ras Laffan project of the project risks involved:

RELATIVE PROJECT RISK ALASKA - RAS LAFFAN		
	Alaska	Ras Laffan
RISKS:		
Regional conflict risk	Very Low	Very High
General country risk	Low	Average
Gas reserve risk	Low	Very Low
Gas price risk	Aver - High	High
Regulatory/legal risk	High	Low
Risk of cost overruns	High	Low
Market access risk	High	Average
Fiscal stability risk	High	Low

5.1.1.4 FINANCING

With respect to the Alaska LNG project it is important to emphasize that the analysis of the project on a no-financing basis does not do the Alaska project justice. In the United States, interest is a tax deductible expense. Furthermore, the financial markets perceive North America as a low risk area in which a high leverage of the downstream operations is possible.

Finally, the incremental investments in the Alaska LNG project are primarily in downstream operations which are highly financeable.

The high degree of financeability of the downstream operations makes the incremental cost of capital less than the weighted average cost of capital of the corporation.

Given these considerations it is important to consider the comparative economics either on an after financing basis or provide some decrease in the hurdle rate in order to recognize these factors. The rate of return after financing would be the rate of return on equity ("Project ROE"). This means the rate of return on total capital less the debt.

5.1.1.5 TOTAL PROJECT VERSUS ITS COMPONENTS

The risk on the total project and its components are not necessarily the same. The downstream components could be constructed under relatively low risk contractual arrangements with the producers. The producers would run the risk of cost overruns, price declines and other risks.

Therefore, for the determination of the netback value and for royalty purposes one would use a rate of return that is lower than the total project rate of return and would represent the lower risk. Also the costs of capital for the downstream components is typically lower than for the upstream component. The rate of return would be a Cost of Service rate of return.

In order to assume all the project risks, the liquid penalty and earn a reasonable return on the project development investments, the producers will have to have a reasonable minimum netback value for the gas. It can be estimated that this value is about $ 0.98 per Mcf. If downstream operators would assume more risk, this value could be lower but in this case the cost of service of the downstream operations increases because of the need for a higher rate of return in order to assume this risk.

The rate of return is dependent on the ramp-up speed of the project. A unique feature of the Alaska project is that a long distance high cost gas pipeline is required. The quicker this line can be filled with production, the higher the rate of return will be. If the ramp-up would be 3 years, the ROR would be approximately 0.7% higher. Such a fast ramp up, however, is improbable due to market restrictions. Currently, the total Pacific LNG market is increasing by about 2.5 million tons per year and many projects compete in this market.

It therefore appears that the Alaska North Slope LNG project is not economic under current conditions, even if the costs could be dropped to $ 12 billion and the ramp-up speed could be increased.

However, improvements in the fiscal system together with a reduction of project risk could make the project attractive.

5.3 ALASKA PROJECT ON THE BASIS OF OTHER FISCAL SYSTEMS

5.3.1 OVERALL FISCAL BURDEN

The overall fiscal burden imposed by Alaska on a possible LNG project is tough in comparison with other LNG exporting countries.

The relative burden can be most accurately measured by applying the fiscal terms of other jurisdictions to Alaska North Slope economics.

In such a comparison the economics of Alaska, Canada and Australia are measured on a consolidated basis and the economics of the other LNG exporting countries is measured on a stand alone basis. The following table provides the comparative analysis of the ROR for two scenarios, $ 15 billion costs with a price of $ 3.50 and $ 13.5 billion costs with a price of $ 3.90:

This is a very strong indication that the Alaska fiscal terms are not competitive with the "outer circle-high cost" jurisdictions.

5.3.2 STRUCTURE OF THE GOVERNMENT TAKE

An important issue in international fiscal systems is the structure of the fiscal system. The structure of the fiscal system can be analyzed by reviewing the level of government take under various scenarios.

The government take is defined as the percentage that the government obtains of the economic rent. The government take is usually expressed as a percentage of the undiscounted rent, although economic rent is usually determined on a discounted basis.

The following table provides the undiscounted government take in percent for the two scenarios:

GOVERNMENT TAKE OF DIFFERENT FISCAL SYSTEMS BASED ON ALASKA ECONOMICS			
	Costs/price:	15B- $ 3.50	13.5B- $ 3.90
	Project:		
ALASKA	North Slope	40.4%	41.7%
INNER CIRCLE-LOW COST:			
Brunei	Lumut	46.6%	49.8%
Indonesia	Arun	57.5%	59.9%
Malaysia	Bintulu I ,II	61.2%	66.4%
Malaysia	Bintulu III	61.2%	66.4%
Vietnam	Offshore	38.2%	47.9%
OUTER CIRCLE-HIGH COST:			
Abu Dhabi	Das Island	44.4%	45.6%
Australia	All projects	33.7%	36.1%
Canada	PACRIM	35.2%	39.9%
Indonesia	Irian Jaya	48.7%	50.7%
Indonesia	Natuna	25.6%	25.9%
Oman	Shell	21.6%	19.4%
PNG	Hides	27.3%	28.1%
Qatar	Qatargas	33.1%	30.8%
Qatar	Ras Laffan	34.4%	33.7%
Russia	Sakhalin II	37.5%	38.2%
Yemen	Hunt	35.3%	49.5%

This means that the "outer circle-high cost" countries compete by introducing one or more of the following fiscal concepts in their fiscal system:

- a lower government take
- a progressive government take, making the $ 3.50 case more attractive,
- a back-end loaded government take, or
- investment "subsidies".

Alaska employs none of these features and it is therefore that the Alaskan terms are the least attractive for investors among the "outer circle-high cost" jurisdictions.

In addition to the basic government take, many jurisdictions employ direct government equity participation in the project. This is in particular the case for Qatar, Abu Dhabi, Oman, Yemen, Brunei and PNG. This increases the government take on a "Participation" basis substantially. However, these governments share in this case the commercial risks with the investors.

5.4 COMPETITIVE POSITION RELATIVE TO OTHER PROJECTS

5.4.1 ALASKA ON THE TIME LINE

The projects in Qatar (Ras Laffan and Qatargas), Oman and the NW Shelf expansion project all are ahead on the time line relative to Alaska. The Qatargas project has already started. Oman and Ras Laffan have already specific sales contracts.

The total production capacity of the four projects together is 23.4 million tons of LNG per year. As indicated, the projects also have a Project ROR which are more attractive than the current Alaska project. It is unlikely that the Alaska North Slope project could be launched ahead of these projects.

The Alaska project would therefore primarily compete with a second tier of projects.

5.4.2 COMPETITION WITH RESPECT TO SECOND TIER PROJECTS

The economic information on most of these projects is still rather limited. Project ROR figures for these projects are therefore only indicative. Only very generalized economic analysis can be done with a wide range of error.

5.5 EFFECT OF TIME ON THE PROJECT

The effects of time on the Alaska LNG project are important.

As indicated earlier, the ramp-up speed could add about 0.7% to the Project ROR if the ramp up time could be reduced from 6 to 3 years. It is likely that the ramp up time could be reduced somewhat over time.

By the year 2010 the Pacific markets may increase at a rate of 3 million or more per year instead of 2.5 million tons per year. This might result in a situation where the ramp up time could be reduced to 5 years or 4.5 years. This would increase the rate of return and make the market access risk less.

At the same time the liquid loss which is estimated at 384 million barrels if the project starts in 2005 might be reduced to less than half this amount by the year 2010. This would add about 0.2% to the Project ROR.

A general benefit to Alaskan's might be that over time the CIF prices for gas in East Asia may increase in real terms, creating a considerably higher economic rent which in turn would result in much higher government revenues.

The main drawback of delays in the Alaska project is that the project may be "nibbled to death" by small projects coming in ahead of the Alaska project. Petroleum exploration in Asia used to be primarily for oil. Gas was considered a by-product. However, the strongly emerging gas markets in Asia have now created a situation where petroleum companies are now exploraing for gas.

Exploration in Thailand, Pakistan and China is in many cases aimed at discovering gas. Vietnam may shortly initiate a program aimed at making gas exploration more attractive. Therefore, it can be expected that many gas discoveries will be made during the next decade.

At the same time the economics of small LNG liquefaction facilities is improving.

All such conditions could lead to a situation where Alaska may be delayed.

6. INCREASING PROFITABILITY

In order for the Alaska LNG project to take place the competitiveness and profitability of the project have to be increased. This can only be achieved on the basis of:

a) an active program on the part of the corporations in order to evaluate whether costs can be reduced, and

b) a cooperative approach between the State Government, the Federal Government and the local governments with respect to improving fiscal terms and reducing project risk.

Unless all four parties are willing to make a contribution to increasing the competitiveness and reducing the risk of the project, it would be difficult to reach the minimum objectives.

The increase in competitiveness should be primarily achieved by reducing the government take on the downstream portion of the project. By reducing the government take on the downstream, the netback value will be increased which in turn will lower the cost overrun risk and the price risk. This risk can be further reduced by reducing the upstream government take under conditions of low netback prices.

6.1 STATE AND FEDERAL INCENTIVES

The State and the Federal government could seek to improve the competitiveness of the project considerably by solving two important issues:

- the slow rate of depreciation, and
- the high combined tax rate.

6.1.1 ACCELERATION OF DEPRECIATION

The depreciation should preferably be brought in line with worldwide conditions for LNG plants. This means that an accelerated depreciation of 20% straight line per year should be the target. The change in depreciation should be proposed in such a way that it does not result in impacts on other tax payers.

Additionally one should consider a property tax holiday of 10 years from the end of the ramp-up period. However, one might consider a compensation package for the municipalities for this benefit.

For instance, the compensation could be in the form of "free" natural gas delivered to the municipalities at the pipeline in exchange for the property tax holiday and in lieu of the payment of property tax. Also agreement would need to be reached on the detailed calculation methods of the property tax.

There would be ample justification for the proposed measures from the point of view of the local governments. The project would bring considerable employment and business opportunities and would provide low cost clean energy and a considerable future source of property tax income.

6.3 STATE INCENTIVES

6.3.1 RELIEF ON MINIMUM SEVERANCE TAX

The State could remove the minimum severance tax in order to enhance the ability for the sellers of the gas to negotiate the lowest possible minimum sales price in case of oil price declines. Asian buyers are very concerned about minimum sales prices.

6.3.2 ROYALTY AND SEVERANCE TAX RELIEF

The current 12.5% royalty and the 10% severance tax are front-end loaded The project risk could be reduced and the profitability under low netback conditions could be enhanced with a lower fiscal burden under these conditions. This relief is part of a more general restructuring of the royalty and severance tax to be described in the next chapter.

6.3.3 DETERMINATION OF NET BACK VALUE FOR ROYALTY AND SEVERANCE TAX PURPOSES

It can also be recommended to establish a more detailed and specific system on how the netback price for royalty and severance tax purposes would be calculated. The netback price should be based on the principle that each of the downstream components of the project should be a viable business by itself. A cost of service type rate of return should be included in the calculation of the cost of marine shipping, liquefaction, pipeline transport and conditioning for royalty net back value purposes.

The single new royalty could be made more progressive back-end loaded by:

-- removing the severance tax for gas,

-- introducing a higher royalty in combination with a higher royalty allowance, and

-- by making this royalty time related.

7.2 CREATION OF PROGRESSIVITY AND BACK-END LOADING

Very important variables in the creation of economic rent are the CIF price of gas and the downstream costs. A high price and low downstream costs create automatically a large economic rent. It is in the interest of Alaska to capture a large share of the economic rent that might be generated.

The royalty could be made more sensitive to the netback value by increasing the current allowance of $ 0.18 per Mcf to, for instance, $ 0.60 per Mcf. The average project royalty could be increased at the same time to, for instance, 30%.

This average royalty could then be re-distributed over a time frame related to the project. The royalty could start at 5% during the construction and ramp-up phase and could go up to rather high levels of say 40 - 60% depending on the detailed provisions of the formula that is applied. Such a formula needs careful consideration.

The creation of a progressive and back-end loaded royalty system make the determination of the net-back value for royalty purposes an essential component of the overall fiscal system, as already discussed in section 6.3.3

Also it should be recognized that the royalty would apply under the umbrella of a specific agreement on the Phase I royalties only. The royalties applicable to a possible Phase II should be judged on the basis of the economic conditions existing at the time that the decision about Phase II is being made and should take into consideration the need for possible considerable incremental investments to put new gas fields on stream.

Finally, it should be noted that the specific royalty formula needs to be designed in the context of the total fiscal package and should therefore be based on the final form of agreements reached between the levels of government.

Also the distribution of risks and benefits of the State of Alaska is very different from the private investors. The State of Alaska will benefit from Phase II. The specific initial project investors might or might not.

Therefore, the State of Alaska could assume project risk by partially financing the project with long term loans.

The atractiveness of the project could increase if the State could use such tax supported financing and can assume project risk by lending under favorable conditions.

8.3 INFRASTRUCTURE DEVELOPMENT

Some governments in the world have promoted the LNG exports through very considerable direct infrastructure or project support. Qatar constructed an new $ 1 billion port. Indonesia assumes the construction and financing costs of the liquefaction plants and charges private investors for liquefaction on a cost basis.

The State of Alaska may be able to provide similar support to the project. This may be the case for improvements in the port in Valdez or similar infrastructural works.

8.4 FISCAL STABILITY

The ANS LNG project will not occur without a significant enhancement of the stability of the fiscal terms. The profitability of the project depends entirely on a comprehensive set of fiscal and financial measures. Without these measures the project is uneconomic. As a result, there has to be an acceptable degree of fiscal stability before investors can risk the investment in such a large project.

This fiscal stability does not exist at this time. The State of Alaska has the unilateral right to change taxes. This applies to severance taxes, property taxes and corporate income tax. All these taxes are major components of the fiscal structure.

Even if the current government would agree to a new fiscal package, the next government could change it. The State of Alaska could therefore take a number of measures that would help in establishing an environment of fiscal stability. Several measures are possible.

It seems that a reasonable middle ground could be the following:

-- the State Legislature could pass a law permitting the government to enter into fiscal agreements for specific projects for a specific time period, for instance, no longer than 25 years (5 years for development and 20 years production),

-- any such agreements would have to be specifically approved by the State Legislature,

-- if the fiscal system changes in the future, such changes would not be applicable to the project for which the agreement exists and such agreements would be "grandfathered" under any such new law changing the fiscal system,

-- it could be understood that the agreement could only be canceled or amended on the basis of a specific new law by the State Legislature.

This process does not provide for absolute fiscal stability, but it would come as close as one could reasonably hope for in the North American context. A formal agreement with the investors signed by the State and approved by the State Legislature would have a tremendous moral weight and it would be very damaging for the image of the State if the agreement would be unilaterally canceled or amended.

8.4.5 FINANCING PACKAGE

The long term State supported financing package may help to solidify the fiscal stability. The package may include certain conditions that would link the package to the fiscal stability. Since the State of Alaska would have guaranteed the financing package to the lenders, this would create considerable additional comfort on the part of the investors that the fiscal stability will "hold".

8.4.6 PARTICIPATION

The equity participation provisions could be part of the overall fiscal stability agreement.

For the $ 3.90 scenario the desirable target rate would still not be reached, which means that the Alaska LNG project still would not compare very well with other LNG projects around the world under this price scenario or higher price scenarios.

On the other hand, the project rates relatively better under lower price scenarios and would rate very high on a ROE basis. Also the minimum netback price of about $ 0.90 per Mcf would be far exceeded at the $ 3.90 CIF price level.

9.3 REDUCTION OF RISK

The proposed fiscal structure reduces cost overrun risk and price risk.

The State of Alaska could reduce project risk further through a detailed contractual arrangement with the producers, involving fiscal stability and a detailed definition of terms, including detailed calculation procedures for all fiscal components.

Based on such a package that involves considerable risk reduction companies may be prepared to consider a risk adjusted hurdle rate of 12%, based on CIF prices of $ 3.50 per MMBtu.

The combination of improved fiscal terms and risk reduction may result in an overall situation where the project would be considered profitable and attractive by the producers. From that point onwards it would be the actual development of LNG market conditions that would determine when the project could be launched in the 2005 - 2010 time period.

9.4 OTHER FACTORS

Apart from the three factors indicated above, further factors could help in bringing the project about.

A shorter ramp-up time of 4.5 or 5 years could add another 0.5% to the Project ROR. Based on the new fiscal package and the risk reduction agreement with the State of Alaska, it might be possible to convince buyers that a faster ramp up would be attractive.

HJR

39

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. HJR 39

Title: Limiting the Declaration of National Monuments

Sponsor: Representative Ogan

Requestor:

Dept. Affected
BRU:
Components:
Serial #

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
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	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE	0.0	0.0	0.0	0.0	0.0	0.0

FUNDING: (THOUSANDS OF DOLLARS)

General Fund	0.0	0.0	0.0	0.0	0.0	0.0
Federal Fund	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

POSITIONS:

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)
see attached analysis

Prepared by: House Resources Committee
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Date: May 6, 1997
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SPONSOR STATEMENT HJR39

HJR39 was introduced as a means to articulate the resolve of the citizens of this state to stand against further attempts by the federal government to encroach upon our autonomy and rights as a state.

HJR39 simply requests that the United States Congress enact legislation prohibiting the President of the United States from further extending or establishing national monuments without the express authorization of the Congress. Currently, under the turn of the century Antiquities Act of 1906 (16 U.S.C. 431-433) the President, without authorization by the Congress and despite the wishes of state public officials, can establish national monuments. This law is ambiguous and terribly flawed because of its lack of public process.

This point is illustrated by President Clinton's action in 1996 to establish the Grand Staircase-Escalante National Monument. By taking this action, the President set aside 1.7 million acres of land in southern Utah, thus creating the largest national monument in the continental United States. He took this action even though the public officials of the State of Utah opposed this measure, and despite the fact that it resulted in the loss of significant economic resources for the public schools and taxpayers of the state of Utah.

This is a timely request of Congress, as they now have before them three bills that would rectify the situation. All of these bills will help in the effort to bring meaning back to the phrase "balance of power." This is not a resolution against conservation or environmentalism. It is a resolution supporting the public process and the rights of states. Please join me in sending this message to the United States Congress.

- UNITED STATES CODE
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    - CHAPTER 1 - NATIONAL PARKS, MILITARY PARKS, MONUMENTS, AND SEASHORES
      - SUBCHAPTER LXI - NATIONAL AND INTERNATIONAL MONUMENTS AND MEMORIALS

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§ 431. National monuments; reservation of lands; relinquishment of private claims

The President of the United States is authorized, in his discretion, to declare by public proclamation historic landmarks, historic and prehistoric structures, and other objects of historic or scientific interest that are situated upon the lands owned or controlled by the Government of the United States to be national monuments, and may reserve as a part thereof parcels of land, the limits of which in all cases shall be confined to the smallest area compatible with the proper care and management of the objects to be protected. When such objects are situated upon a tract covered by a bona fide unperfected claim or held in private ownership, the tract, or so much thereof as may be necessary for the proper care and management of the object, may be relinquished to the Government, and the Secretary of the Interior is authorized to accept the relinquishment of such tracts in behalf of the Government of the United States.

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§ 431a. Limitation on further extension or establishment of national monuments in Wyoming

No further extension or establishment of national monuments in Wyoming may be undertaken except by express authorization of Congress.

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§ 432. Permits to examine ruins, excavations, and gathering of objects; regulations

Permits for the examination of ruins, the excavation of archaeological sites, and the gathering of objects of antiquity upon the lands under their respective jurisdictions may be granted by the Secretaries of the Interior, Agriculture, and Army to institutions which they may deem properly qualified to conduct such examination, excavation, or gathering, subject to such rules and regulations as they may prescribe: Provided, That the examinations, excavations, and gatherings are undertaken for the benefit of reputable museums, universities, colleges, or other recognized scientific or educational institutions, with a view to increasing the knowledge of such objects, and that the gatherings shall be made for permanent preservation in public museums. The Secretaries of the departments aforesaid shall make and publish from time to time uniform rules and regulations for the purpose of carrying out the provisions of this section and sections 431 and 433 of this title.

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§ 433. American antiquities

Any person who shall appropriate, excavate, injure, or destroy any historic or prehistoric ruin or monument, or any object of antiquity, situated on lands owned or controlled by the Government of the United States, without the permission of the Secretary of the Department of the Government having jurisdiction over the lands on which said antiquities are situated, shall, upon conviction, be fined in a sum of not more than $500 or be imprisoned for a period of not more than ninety days, or shall suffer both fine and imprisonment, in the discretion of the court.

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