

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

10718 HOUSE COMMUNITY & REGIONAL AFFAIRS



# RECORDS CERTIFICATION



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*William J. Carter*

Signature of Camera Operator

*7/29/2005*

Date

2003-2004

HOUSE COMMUNITY & REGIONAL AFFAIRS COMMITTEE

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2/6/03

OVERVIEW:

LOW

SULPHUR

FUEL

# Low Sulfur Diesel Fuel Rule

<u>Name</u>	<u>Title</u>	<u>Organization</u>	<u>Telephone</u>
1. Tom Chapple Ron King	Dir. Air & Water Qtly.	DEC DEC	465-5128 465-5128
2. Steve Cleary		AKPIRG	278-3661
3. Frank Dillon	Executive Vice President	Alaska Truckers Assoc.	276-1149
4. Marie Becker		Alaska Village Electrical Coop	561-7972
5. TC Wilson	Environmental Liason	ARECA	561-6193
6. Vern Rausseher		Tlingit-Haida Regional Electric	789-3196
7. Shawn Tarter	Vice President	Yukon Fuel	777-5515 529-0715 cell
8. Bill Boycott		Williams Alaska	488-0056
9. Al Ewing Kathy Prentki Yuri Morgan	Chief of Staff Energy Specialist Legislative Liaison	Denali Commission Denali Commission Denali Commission	271-2372 271-2372 271-2372
10. Chris Mello	Program Manager	Alaska Energy Authority	269-4649

observe  
only

# House Community & Regional Affairs Committee

New Diesel Fuel Regulations

February 6, 2003

Tom Chapple & Ron King



Alaska Department of Environmental Conservation

410 Willoughby Avenue, Suite 303

Juneau, AK 99801

907-465-5100

[ron\\_king@dec.state.ak.us](mailto:ron_king@dec.state.ak.us)

**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Presentation Overview*

- Current Status: Urban Alaska
- History of Rule
- Pros and Cons
- Options
- Current Status
- Questions and Answers
- Closing Remarks

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*History: Types of Diesel Fuel*

- Home Heating
- Power Generation
- Marine Vessels
- On-Road (i.e. cars, trucks, buses)
- Stationary Sources
- Non-Road (i.e., farm tractors, road graders, front end loaders, etc.)

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*History: The EPA Rule*

- Preponderance of urban health studies find particulates, particularly particulates from diesel exhaust are health threats.
- In 2000, EPA established a rule to reduce air pollution from large trucks and buses starting in 2007.
- New emission control equipment is required for model year 2007 diesel trucks will reduce emissions by over 90%.
- In 2006, diesel trucks and buses must start using diesel that has 15 parts per million (ppm) or less sulfur.

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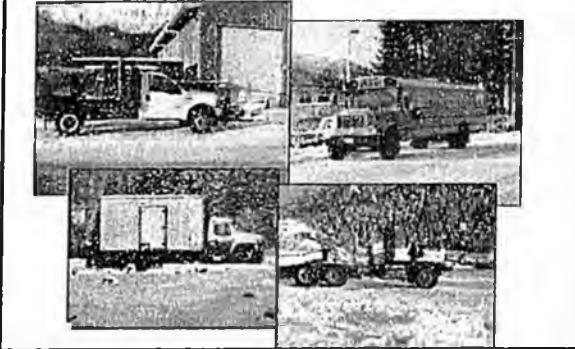
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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Types of Vehicles Covered by the Rule*



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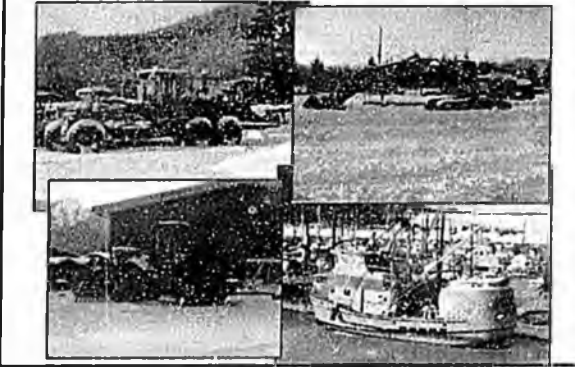
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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Types of Vehicles/Equipment NOT Covered by the Rule :*



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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Pros and Cons*

- Air Quality
- Economic
- Distribution
- Truck Owner



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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Air Quality Impacts*

- Using the new fuel will reduce air pollution from large trucks and buses.
- Air pollution may trigger asthma attacks, cause lung cancer, respiratory illness, or increased mortality.
- Estimated health benefits nationally is \$70 Billion.



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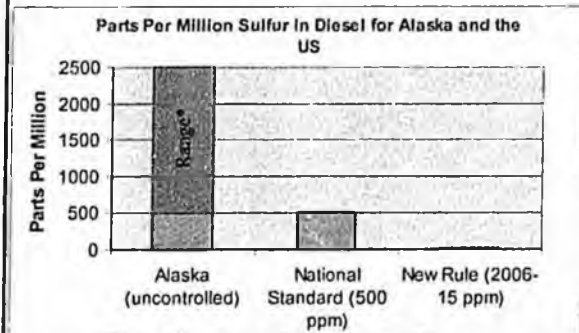
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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**



\* Based on Anecdotal Evidence

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Economic Impacts*

- Ultra-low sulfur fuel may be \$0.10 per gallon or more than the current cost of diesel.
- Costs to rural Alaska will likely be higher due to distribution challenges.
- Use of ultra-low sulfur diesel for uses such as home heating or power generation may increase costs to a community.

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Distribution Impacts*

- Transportation of fuel to rural Alaska different than other parts of US and challenging.
- May be difficult to find ultra-low sulfur diesel meeting arctic grade fuel requirements.
- Dual tank systems for separating ultra-low sulfur diesel from other fuels may be expensive.

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Truck Owner Impacts*

- May be difficult to find ultra-low sulfur diesel meeting arctic grade fuel requirements.
- Operators of 2007 heavy-duty diesel trucks must use ultra-low sulfur diesel or risk engine damage, loss of warranty, and federal penalties.
- Use of ultra-low sulfur diesel in 2006 and older vehicles is not expected to cause problems.

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Roadway Alaska:* National plan begins September 2006

*Options for Rural Alaska*

- National Plan
- Buy the 2007 or later diesel truck :
  - Buy the fuel for that truck
  - Buy the fuel for all the diesel vehicles
  - Buy the fuel for all diesel uses in the community
  - Other options?

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Current Status for Rural Alaska?*

- The department has recommended the implementation of the national plan for the contiguous highway system and major communities on the marine highway system.
- The department requested additional time to address communities off the contiguous highway system.
- The department must recommend to EPA by June 13, 2003 an approach for the remaining communities.

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Balance?*

- The department desires to balance energy costs with health costs.
- The department is seeking funds to identify potential health benefits and economic impacts.

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**Alaska Ultra-Low Sulfur Diesel Fuel Transition Plan**

*Information Contact:*

Ron King

Alaska Department of Environmental Conservation  
Air Non-Point & Mobile Sources Program  
410 Willoughby Avenue, Suite 303  
Juneau, AK 99801

phone: 907-465-5100  
fax: 907-465-5129  
email: ron\_king@dec.state.ak.us

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2/6/03

CONFIRM:

EDGAR

BLATCHFORD

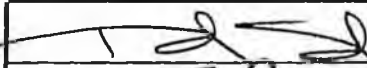

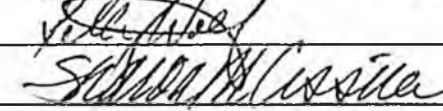
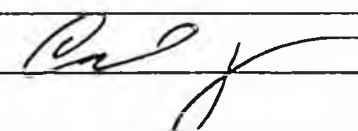
## CONFIRMATION COMMITTEE REPORT

Action date: 02-06-03

In accordance with AS 39.05.020, the Community and Regional Affairs Committee has reviewed the qualifications of the following Governor's appointee and recommends that this name be forwarded to a joint session for consideration:

**Commissioner - Department of Community and Economic Development**  
 Edgar Blatchford  
 Appointed: 01/18/2003

This does not reflect intent by any of the members to vote for or against this individual during any further sessions for the purposes of confirmation.

Signature:	Printed Last Name
	SAMUELS
Tom Anderson	ANDERSON
	Chennault
	Wally CISNA
Chair: 	Morgan
Chair:	

Please return to the Chief Clerk's office.



# Alaska State Legislature

## House Committee on Community and Regional Affairs

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**Representative Carl Morgan, Chair**

State Capitol Building, Room 408

Juneau, AK 99801

907-465-3882

### AGENDA

State Capitol 124

8:00 am -- 10:00 am

1. **Call to Order**  
Today's date is February 6th, 2003  
The time is 8 am
2. **Representative Kookesh, has been excused.**
3. **Conformation of Commissioner for the Department of Community and Economic:**  
  
**Edgar Blatchford**  
Ask Commissioner Blatchford to give a brief overview of experience and qualifications followed by questions and comments from the committee members
4. **Next weeks meetings:**
  - Tuesday
    - Overview of the Department of Community and Economic Development
  - Wednesday (Held in Senate Finance Room)
    - Joint Meeting with Senate Community and Regional Affairs Committee to review Local Boundary Commission's Annual Report  
*Members: Please review the report before next Wednesday's meeting and prepare any questions or comments you wish to discuss.*
  - Thursday
    - Overview of the Denali Commission
5. **Other Business**
6. **Adjournment**

COMMISSIONER EDGAR BLATCFORD  
CONFIRMATION HEARINGS  
02/06/2003

Request the Commissioner make an opening statement to the committee.

QUESTIONS:

1. In your view, what role can DCED have in bringing public services to rural communities?
2. What can DCED do to work with ANCSA corporations and entities to promote Economic Development?
3. How is DCED going to assist fishing communities in selling and processing their fish in the upcoming season given the Wards Cove plant closing?
4. What steps is DCED going to take to increase Alaska's export and trade?
5. What can the Division of Investments do to provide loans to small communities for start-up business ventures?
6. What are your plans to promote fair and consistent regulatory environment for business in the State of Alaska?
7. What can DCED do to encourage companies to make investments in Alaska?
8. Is there a need for regulatory reform within the Insurance Regulations and will that assist in the business environment in Alaska?
9. What is your outlook on the consolidation of Community and Regional Affairs with Commerce and Economic Development?



Official Business

# Alaska State Legislature

House of Representatives

Office of the Chief Clerk

State Capitol, Room 216  
Juneau, AK 99801-1182  
Phone: (907) 465-3725  
Fax: (907) 465-5334

## MEMORANDUM

Date: January 24, 2003  
To: Representative Morgan  
From: Suzi Lowell *SL*  
Chief Clerk  
Subject: Governor's Appointments

Speaker Kott referred the following Governor's appointment to the Community and Regional Affairs Committee:

**Commissioner - Department of Community and Economic Development**  
Edgar Blatchford  
Appointed: 01/18/2003

The resume and committee report are attached for your use.

Attachments as noted

THE  
FOLLOWING  
DOCUMENT(S)  
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ORIGINAL  
COPIES

**Edgar Blatchford**  
**Associate Professor**  
**Department of Journalism and Public Communications**  
**College of Arts and Sciences**  
**University of Alaska Anchorage**  
**3211 Providence Drive**  
**Anchorage, Alaska 99508**

---

**Address:** P.O. Box 1344  
Seward, Alaska 99664  
**Phone:** Home (907) 224-5532  
Office (907) 786-4185  
Cell (907) 362-1765

**Education:** Bachelor of Arts., Alaska Methodist University, 1973.  
Juris Doctor, School of Law, University of Washington, 1976 .  
Masters of Journalism, Graduate School of Journalism, Columbia  
University in the City of New York, 1988.

### **Teaching**

#### **A. Teaching Experience**

- \* University of Alaska Anchorage, Department of Journalism and Public Communications, Associate Professor, July 2002 to current.
- o Affiliate Professor, College of Rural Alaska, University of Alaska Fairbanks, September 2000 to present.
- o University of Alaska Anchorage, Assistant Professor, Department of Journalism and Public Communications and Alaska Native Studies, August 1999 to June 2002.
- o University of Alaska Anchorage, Department of Journalism and Public Communications, Assistant Professor, August 1995 to August 1999.

- University of Alaska Fairbanks, College of Rural Alaska, Visiting Assistant Professor, January 1995 to June 1995.
- Alaska Pacific University, School of Liberal Arts, Adjunct Professor, August 1978 to May 1979.

#### B. Advisor

- Alaska Native Oratory Society, January 2001 to current.
- *The Northern Light*, August 1999 to current.
- Public Relations Students Society of America, August 1995 to May 1999.

#### C. Classes Taught (Partial List)

- Journalism: JPC 101 Introduction to Mass Communications, JPC A201 Writing for Media, JPC 212 Editing, JPC 320 Principles of Public Relations, JPC 330 Advanced Public Relations, JPC A413 Communications Law, AKNS A490 History of Alaska Media, 1995 to present.
- Alaska Native Studies: AKNS A490 Selected Topics: Political Communications, AKNS A490 Selected Topics: The Corporations, AKNS A346 Alaska Native Politics, 1998 to present.

### Service

#### A. Elected Government

- Mayor, City of Seward, Alaska, October 1999 to current.
- Vice Mayor, City of Seward, Alaska, December 1998 to October 1999.
- Council, City of Seward, Alaska, October 1996 to October 1999.
- Legislative Committee, Alaska Municipal League, November 1998 to present.

#### B. Appointed Government

- Governor's Cabinet, Commissioner, Alaska Department of Community and Regional Affairs, January 1991 to December 1995.

- Board of Directors, Alaska Housing Finance Corporation, June 1992 to December 1994.
- Board of Directors, Alaska Industrial Development and Export Authority, May 1991 to December 1994.
- Board of Directors, Alaska Energy Authority, May 1991 to June 1993.
- Board of Directors, State Geographic Names Board, January 1991 to June 1993.
- Board of Directors, Alaska Bond Bank Authority, January 1991 to December 1994.
- Member, Older Alaskans Commission, January 1991 to December 1994.
- Chair, Alaska State Rural Development Council, January 1992 to December 1994.
- Board of Directors, Rural Alaska Community Action Program, January 1991 to December 1994.
- Telecommunications Information Council, January 1991 to December 1994.
- Chair, Community Development Quota Group, March 1991 to December 1994.
- Chair, Rural Development Sub-cabinet, March 1991 to December 1994..

**C. University Service (Sample List)**

- Alaska Native Lecture Series Committee, November 2001 to June 2002.
- Women Warriors: Healing and Reconciliation Committee, October 2001 to April 2002.
- Member, JPC Public Relations Search Committee, January to May 2001.
- Dedicator, Tsunami Warning Center, City of Seward, January 2002.
- Reviewer, University of Alaska Anchorage Proposal for a Masters of Public Health in Public Health Practice (for Lawrence D. Weiss, Ph.D.), January 2002
- Panelist, Forum on Academic Freedom, November 2001.
- Guest Lecturer, Alaska Native Claims Settlement Act, JPC 490, April 2002.
- Guest Lecturer, Natives of Alaska, Anth 200, April 1998.

- Guest Lecturer (Questions and Answers), Diversity in Your Backyard: How Alaska Media Report on Minority and Native Affairs, JPC Forum, October 1999.
- Multi-cultural Committee, College of Arts and Sciences, 1995-1996.
- Alaska Native Students Services Selection Committee, 1995-1997.

**D. Alaska Native Community Service (Sample List)**

- Panelist, National Summit on Emerging Tribal Economies, September 2002.
- Lecturer, Cross Cultural Orientation, Southcentral Foundation/Alaska Native Medical Center, November 2001.
- Subsistence Committee, Alaska Federation of Natives, December 1998 to present.
- Board of Directors, Chugach Alaska Corporation, 1977-1978, 1979-1982, 1983-1987, 1988-1991, 1997-2000, 2001 to present.
- Consultant, Adviser or Council member, Qutekeak Native Tribe, June 1996 to present.
- Panelist, Alaska Federation of Natives Political Leadership Meeting, May 1999.
- Lecturer, Chugachmuit Curriculum Project, Seward Middle/High School, September 1999.
- Panelist, Seward Unitarian Universalists Winter Forums on Cultural Diversity and Awareness, Alaska Natives and Intercultural Communication, October 1999.

**Professional Development**

**A. Native Corporation**

- Director, Advanced Concepts in Education (Palmer Job Corps Center), December 1997 to 2000.
- Director, Chugach Development Corporation, February 2002 to present.

**B. Newspapers**

- Editor/Publisher, *The Seward Phoenix Log*, February 1984 to December 1990.
- Editor/Publisher, *The Tundra Drums*, March 1987 to (inactive status January to March 1991) March 1991.
- President, Alaska Newspapers, Inc., March 1987 to (inactive status January to March 1991) March 1991.
- Board of Directors, Alaska Newspapers, Inc., March 1987 to present.
- Editorial Board, Alaska Newspapers, Inc., April 2000 to present.

### C. University

- Panelist, *Anchorage Edition* (television public affairs program), February, March, April, May, June, July, August 2002.
- Lecturer, NRCS Employees Meeting, June 2002.
- Lecturer, Department of Interior (Anchorage office), April 2002.
- Panelist, 2002 Alaska Emergency Management Conference, April 2002.
- Lecturer, Emergency Preparation Class, April 2002.
- Lecturer, Grinnel College Visit to UAA, March 2002.
- Presenter, Kenai Peninsula 2001 Economic Outlook Forum, Kenai Peninsula College, November 2001.
- Presenter, Kenai Peninsula 2000 Economic Outlook Forum, November 1999.
- Panelist, University of Victoria, School of Public Administration, Aboriginal Governance Program, "Yukon Alaska conference Strategic Communications," June 1998.
- Panelist, University of Victoria, Faculty of Human and Social Development, Indigenous Governance Program, "Strategic Communications in Aboriginal Programs," June 1998
- Panelist, University of Victoria, Faculty of Human and Social Development, Indigenous Governance Program, "Strategic Communications in Aboriginal Programs," June 1999.
- University of Washington Conference on Trauma and Journalism, September 1997.
- Annual Meeting, Association for Educators in Journalism and Mass Communications, August 1999.
- Panelist, Second Annual Rural Economic Development Forum, November 1999.

## Research/Creative Activity

### A. University

- "Working Together to Make Changes in Your Community," 1997 to 1999.
- CYBERnet Links "Working Together To Make Changes in Your Community" to web site, June 2002.

### B. Native Corporation

- Testimony, United States House of Representatives, Committee on Resources, July 1999.

### C. Native Association

- Legislative Language (Assistance and Preparation) for the United States House of Representatives, Committee on Resources, Testimony Recognizing Qutekcak Native Tribe, February 1998.
- Negotiator, Qutekcak Native Tribe, "Assignment of Sublease and Agreement Between Qutekcak Native Tribe and the City of Seward for the Operation of the Seward Mariculture Research Center and Shellfish Hatchery," Summer 1997.

---

## References

The Honorable Richard Foster  
Alaska State Representative  
P.O. Box 1030  
Nome, Alaska 99762  
(907) 443-5036

Robbie Fagerstrom  
President  
Sittimuk Native Corporation  
465 Bering Street

P.O. Box 905  
Nome, Alaska 99762  
(907) 443-2632

Dr. Gordon L. Pullar  
Director, Department of Alaska Native and Rural Development  
2221 E. Northern Lights Blvd., Suite 213  
Anchorage, AK 99508  
(907) 279-2700  
[g.pullar@ual.edu](mailto:g.pullar@ual.edu)

Dr. Tony T. Nakazawa  
Director  
University of Alaska Fairbanks Cooperative Extension Service  
Fairbanks State Office – Director's Office  
CES Building  
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Fairbanks, AK 99775-6180  
(907) 474-7246  
[tnato@ual.edu](mailto:tnato@ual.edu)

2/25/03

OVERVIEW:

DEPARTMENT

OF

COMMERCE &

EC. DEV.



# Alaska State Legislature

## House Committee on Community and Regional Affairs

**Representative Carl Morgan, Chair**  
State Capitol Building, Room 408  
Juneau, AK 99801  
907-465-3882

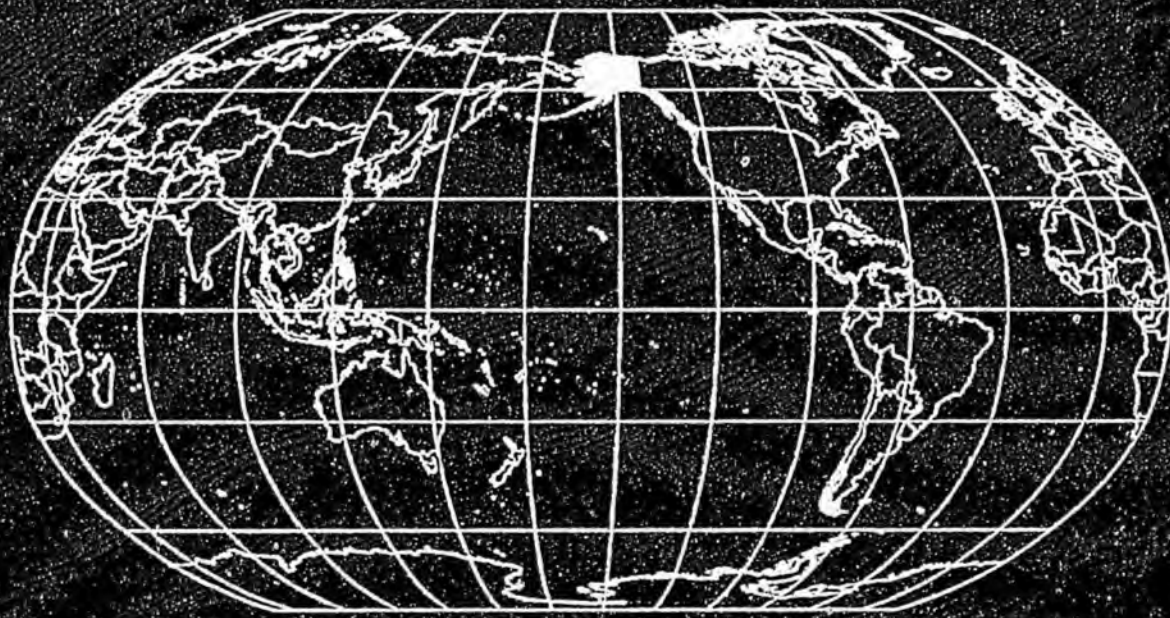
### AGENDA

State Capitol 124  
8:00 am – 10:00 am

- **Call to Order**  
Today's date is February 25, 2003  
The time is \_\_\_\_\_ (8 am)
- **Overview**
- **Department of Community and Economic Development**  
*Edgar Blatchford, Commissioner*
  - **Division of Community and Business Development**  
*Gene Kane, Director (Kane)*
  - **Division of International Trade and Market Development**  
*Margy Johnson, Director*
  - **Division of Investments**  
*Greg Winegar, Director*
  - **Division of Banking, Securities & Corporations**  
*Mark Davis, Director*
  - **Division of Occupational Licensing**  
*Rick Urion, Director*
  - **Division of Insurance**  
*Stan Ridgeway, Director (Ridgeway)*
- **Other Business** *AEIDA & AEA (overview)*
- **Adjournment**

# PASSPORT

to Global Opportunities



## *2001 Annual Report*



*Division of International Trade and  
Market Development*

*Tony Knowles, Governor  
Deborah B. Sedwick, Commissioner  
Greg Wolf, Director*

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# Governor's Welcome



TONY KNOWLES  
Governor  
State of Alaska

Dear Fellow Alaskans,

Trade is a passport to increased economic opportunities in Alaska. Trade translates directly into jobs in our communities, investment in our infrastructure, and development of our manufacturing and service base. At 10 percent of our Gross State Product, it is an important part of our efforts to grow a healthy, diversified economy.

Although Alaska is an attractive trade partner because of the quality of our goods and services and the stability of our business climate, stiff competition is a fact of life in international markets. It is imperative that Alaska not let up in our aggressive efforts to promote and facilitate trade. In the long run, the hard work pays off. The Division of International Trade and

Market Development (ITMD) is the State's only division that provides day-to-day commercial trade services. I am pleased that during my administration we have been able to provide their support to help Alaska businesses to make international sales. In 2001, Alaska exported \$2.4 billion worth of goods to 89 countries.

International trade promotion is hard work, comprised of long hours building relationships, seeking opportunities, researching market trends and selling, selling, selling. Ask any of the business leaders who travel on our trade missions about the pace we set and the opportunities we create. It was an honor to lead a trade mission to Europe in March 2002. Alaska business leaders in tourism, seafood, energy support services, and banking joined me in promoting our wonderful seafood, the many exciting destinations in our state, and our technical expertise in two key European markets: the United Kingdom and Germany.

The Europe Mission was good timing and typical of the hard work that international marketing requires. We met with seafood buyers, retailers, and reprocessors on the heels of significant increases during 2001 in seafood sales to these countries. We aggressively sold Alaska at the precise time when international travelers are seeking safe, attractive destinations. We also had the opportunity to thank investors who have spent billions of dollars in developing Alaska's infrastructure and industries. My thanks to ITMD for organizing the mission.

I commend the consistent efforts of Alaska's businesses in the international marketplace. Thanks to them, international trade creates good things for Alaskans.

Sincerely,

A handwritten signature in black ink that reads "Tony Knowles". The signature is written in a cursive style with a large initial "T".

Tony Knowles  
Governor

# The Overview



DEBORAH SEDWICK  
Commissioner  
Department of Community  
and Economic Development

Dear Alaskans:

Alaska's businesses are up to the challenges of the international marketplace. They know that international trade opportunities are a way to expand and grow business. The Division of International Trade and Market Development (ITMD) knows this first hand as hundreds of businesses and individuals take advantage of the Division's export assistance, trade leads, and market research. ITMD helps Alaska firms succeed overseas by organizing inbound and outbound trade missions from existing and potential customers in Japan, Korea, the Russian Far East, and many other countries.

Here are two examples of the positive result from promoting Alaska goods and services in international markets.

Business executives and government officials from Taipei and Kaohsiung traveled to Alaska in the spring of 2001 to see firsthand the state's oil spill preparedness and response capabilities. They learned about ways to structure their own response systems. The Taiwan Environmental Protection Agency ultimately hired an Alaskan environmental engineering firm in partnership with a Taiwan company to provide training in this important area.

Another good example, is a two-year-long campaign to introduce Alaska seafood to deluxe hotels in Seoul and other Korean cities. Approximately two million dollars worth of salmon, halibut, crab, scallops, and other Alaska products made their way onto the menus and into promotional events of these high-end hotels for the first time.

ITMD helps Alaska sellers become export ready, acquire essential market information, and find buyers. Through these direct trade services, ITMD helps Alaska businesses diversify our economy. This annual report is part of that effort. I invite you to take the time to look at these snapshots of Alaska's major markets and commodities. We hope you find value in the information provided in this report and look forward to working with our Alaska businesses to find trade opportunities in the near future.

*Deborah B. Sedwick*  
Deborah B. Sedwick, Commissioner



GREG WOLF  
Director, International Trade  
& Market Development

Dear Alaskans:

I am proud to present the third Annual Report on Alaska's international trade performance. The following pages provide a snapshot of Alaska's largest exports and top trading partners for the year 2001. Each year, in response to feedback and suggestions from readers of previous reports, we strive to improve the quality of information and expand the quantity of information presented. This year, for instance, we have added a section on foreign currencies important to Alaska exporters.

2001 saw a changing of the guard among the state's top ten trading partners. Mexico, Thailand, and Australia moved into the top ranks lending further evidence of the growing diversification of export sales by Alaska companies. Japan and Korea, traditionally the state's number one and number two top markets, maintained their dominant positions. Taken together, these two countries account for more than 60 percent of the state's total exports.

I hope that you find this report informative and useful as you work to expand your business, explore export opportunities or move into new markets. Please do not hesitate to contact me or members of the division's trade staff if you need assistance or have questions on pursuing global opportunities.

Sincerely,

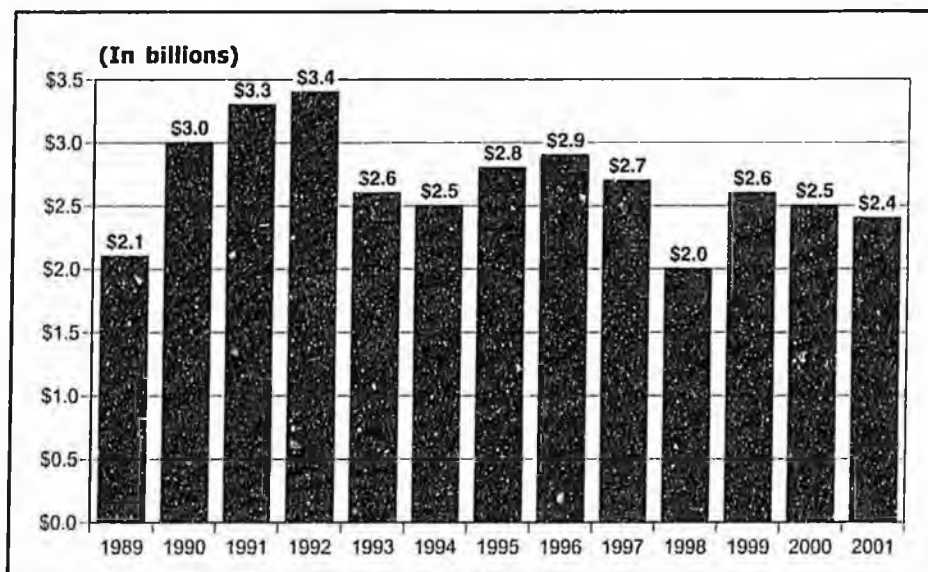
*Greg Wolf*

Greg Wolf, Director

# Alaska's Top Export Partners

Rank in 2001	Rank in 2000	Country	Value of Export in 2001	% of Total in 2001	Major Commodities
1	1	Japan	\$ 1,038,965,164	43.0%	Seafood, Oil & Gas, Wood
2	2	Korean Republic	\$463,090,974	19.2%	Seafood, Fertilizer, Mineral Ore
3	3	Canada	\$188,032,082	7.8%	Mineral Ore, Seafood, Wood
4	9	Germany	\$115,147,217	4.8%	Seafood, Mineral Ore, Machinery
5	5	China	\$102,446,718	4.2%	Seafood, Animal Feed, Petroleum Products
6	7	Mexico	\$82,427,390	3.4%	Fertilizer, Petroleum Products
7	4	Belgium	\$81,456,658	3.4%	Mineral Ore
8	11	Thailand	\$33,063,977	1.4%	Fertilizer, Seafood
9	13	Australia	\$30,893,389	1.3%	Mineral Ore, Machinery, Fertilizer
10	6	Taiwan	\$30,853,426	1.3%	Fertilizer, Animal Feed, Seafood

# Alaska's Worldwide Exports



Source: U.S. Census Bureau, State of Origin data

Alaska's exports totaled \$2.418 billion in 2001. This was a decrease of approximately \$46 million or 1.9 percent from 2000. As fore-casted, **crude oil** exports declined to virtually nil in 2001 from \$288 million in 2000 and over \$500 million in 1999. The loss of crude oil exports does not significantly affect the state's economy since prices are similar whether the oil goes overseas or to refineries on the West Coast.

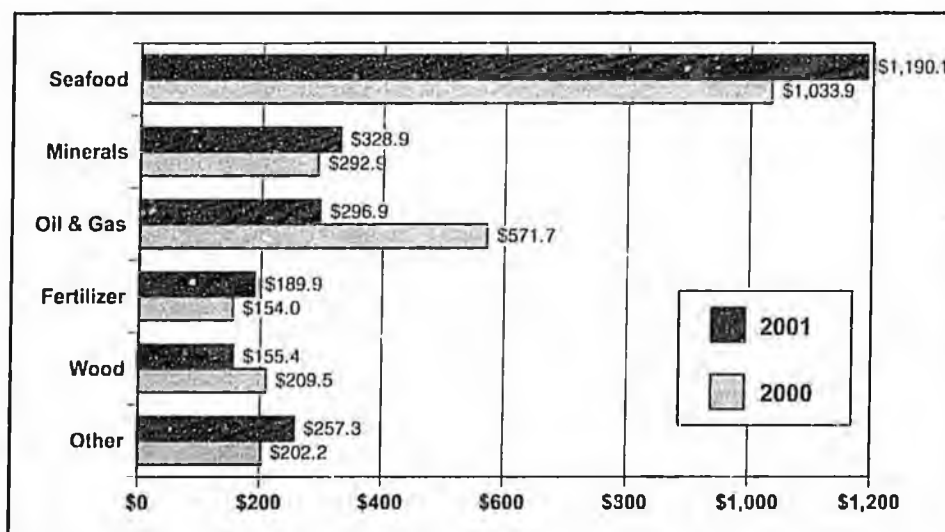
Excluding crude oil, Alaska's exports in 2001 were up over \$240 million from 2000, an increase of 9 percent.

Despite the many problems associated with the seafood industry, **seafood** exports in 2001 jumped 15 percent to \$1.2 billion. Pollock products such as fillets, surimi and roe accounted for most of the increase. Seafood remained Alaska's largest export, accounting for nearly half of total exports. It should be noted that these numbers are based on the US Census Bureau's State of Origin data, which does not include nearly \$133 million worth of canned salmon exported overseas from the United States but not directly from Alaska.

While prices for zinc ore, Alaska's largest mineral export, have been steadily declining over the past several years, **mineral** exports increased by 12 percent in 2001 due to increase in volume. Though production value was up, profits were down in 2001 for the mineral exporters.

Exports from the **energy** sector declined nearly 48 percent due to the change in destination of North Slope crude oil.

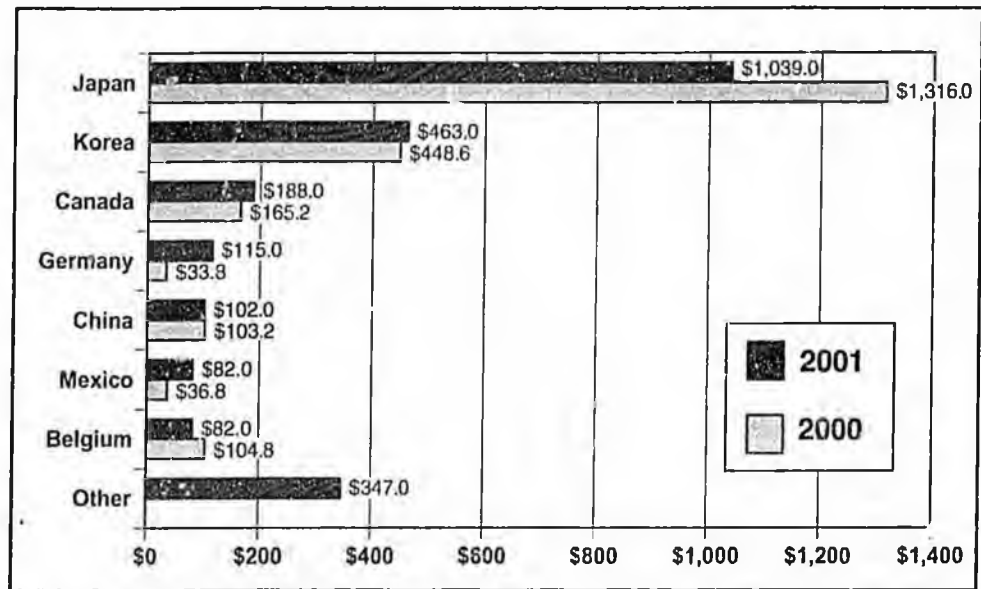
However, sales of liquefied natural gas to Japan and coal to Korea remained stable in 2001. **Fertilizer** exports, mainly from Agrium's Nikiski plant, totaled \$189.8 million, an increase of 23 percent over 2000. Exports of **forest products** continued to decline, totaling \$155.4 million in 2001, a decrease of over 25 percent from 2000.



Source: U.S. Census Bureau, State of Origin data

# Trading Partners

The economy of **Japan**, Alaska's top export market, continued to suffer from a decade long economic slowdown and deflation. Exports to Japan totaled \$1.04 billion in 2001 down 21 percent from 2000. Still, Japan remained Alaska's top export market for three out of the top five Alaska export categories: seafood, energy, and wood.



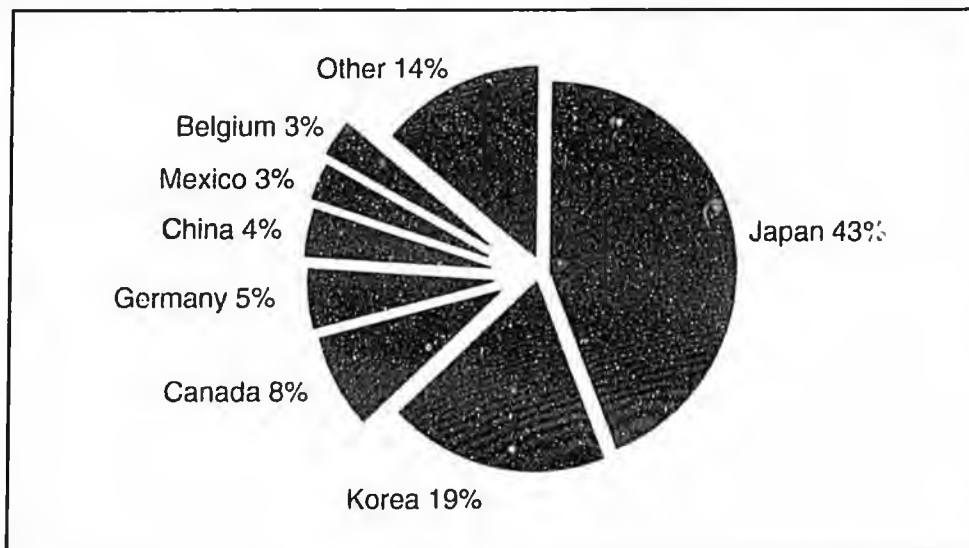
Source: U.S. Census Bureau, State of Origin data

**Korea**, Alaska's number two export market, continued to show signs of a strong recovery from the Asian economic crisis of 1997 and 1998. Exports to Korea reflected that growth, increasing 3.2 percent or \$15 million. This is despite the cessation of crude oil exports to Korea, which totaled over \$100 million in 2000. Excluding crude oil, total exports to Korea were up over 33 percent or \$117 million in 2001. Seafood exports to Korea increased over 78 percent.

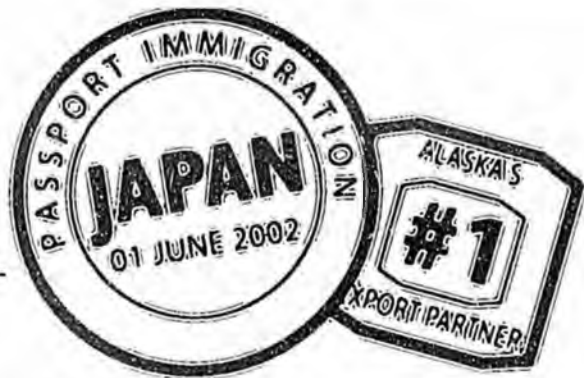
**Canada** was Alaska's third largest export market in 2001, purchasing over \$188 million of Alaska exports. This was an increase of 13 percent from 2000. Top exports to Canada include seafood, fertilizer, and zinc ore.

**Germany** jumped five places to become Alaska's fourth largest export market in 2001. Exports to Germany totaled \$115.1 million in 2001, an increase of over 240 percent. Pollock fillets accounted for most of the increase. **China** was Alaska's fifth largest export market with Alaska's exports totaling \$102 million in 2001, a decrease of 1 percent.

**Mexico, Belgium, Thailand, Australia, and Taiwan** rounded out the second half of Alaska's top ten export markets.



Source: U.S. Census Bureau, State of Origin data



## Highlights

- Exports to Japan declined 21 percent in 2001 as Japan's economic woes continued. Japan's weak economy, continuing deflation and weaker yen all contributed to decreased demand for Alaska's exports in Japan.
- Despite the 21 percent decrease in exports, Japan continued to be Alaska's largest export market. 43 percent of Alaska's exports are destined for Japan.
- Japan is Alaska's top export market for the seafood, energy, and wood sectors.
- An LNG contract extension was signed between Alaskan sellers and Japanese buyers. The new contract will run from 2005 to 2009.

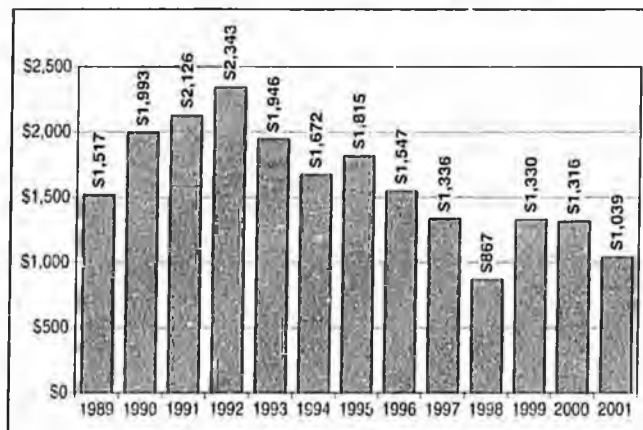
**The Division of International Trade and Market Development (ITMD) assists Alaska's Businesses to export:**

- Participated in the 51st Tokyo International Gift Show (TIGS) with nine Alaska companies. With over 150,000 attendees, TIGS resulted in new market exposure for many small Alaska companies.
- Assisted Japanese film crews visiting Alaska – from salmon runs to glaciers, northern lights, and World Eskimo-Indian Olympics.
- Conducted "Alaska Products Fair" at a popular Tokyo department store. The promotion ran six days and showcased popular Alaska products.
- Provided market response and information for new business development in the dried kelp market.
- Provided continuous updated market information in seafood and energy.
- Produced the Alaska Export Industry Brochure in Japanese.

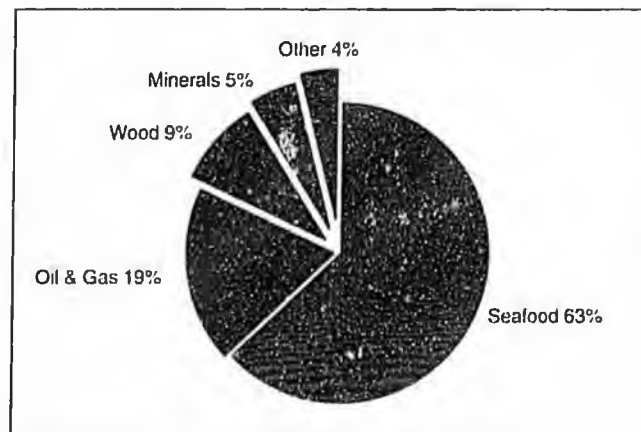
## Background

Alaska's history with Japan has been long-standing and successful, starting as the first state to receive post World War II Japanese investment – in a pulp mill in Southeastern Alaska. Japanese investment continues extensively from seafood, minerals, and the visitor industry. In 1965, Alaska was the first American state to open a trade office in Japan. The following year Japan opened a full time consulate in Anchorage, and since 1982 has been represented by a Consul General. The current Consul General Kazuo Obinata arrived last year.

**Alaska's Exports to Japan**  
Yearly Totals • In Millions



**Alaska's Exports to Japan**  
2001





## Highlights

- Total exports to Korea increased 3 percent in 2001 totaling \$463 million. Korea accounted for over 19 percent of Alaska's total exports. Seafood and mineral exports increased while fertilizer and wood exports decreased in 2001.
- Korea was Alaska's number two export market for seafood, number two for minerals, number two for energy, number one for fertilizer, and number two export market for forest products.
- Seafood exports to Korea in 2001 totaled \$237 million. This was a 78 percent increase from 2000. Pollock surimi, roe and fillets were the main reason behind the increase.
- Korea is anticipating growth in the economy for 2002. Gross domestic product is expected to increase 5 to 6 percent during 2002.

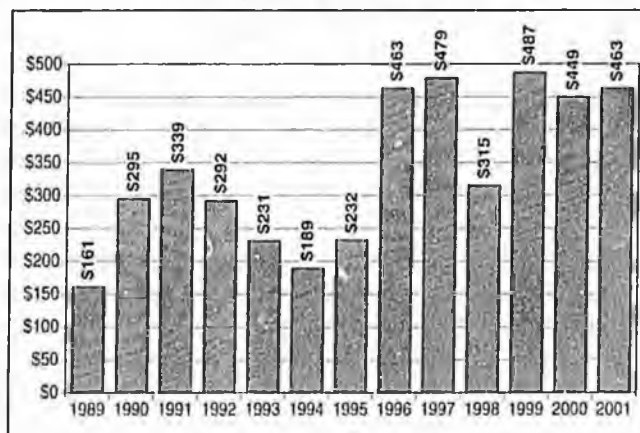
### The Division of International Trade and Market Development (ITMD) assists Alaska's Businesses to export:

- Conducted seafood promotional events at high-end Korean hotels that resulted in over one million dollars in new sales for Alaska companies.
- Participated in the U.S. Food Showcase to promote the products of Alaska companies.
- Organized incoming seafood buyers mission of executive chefs and purchasing managers from deluxe hotels in Korea.
- Promoted Alaska environmental and technical services through the participation in International Exhibition on Environmental Technologies (ENVEX 2001) and Daejeon Technomart.
- Promoted Alaska energy through the organization of an energy seminar in conjunction with the Korea Energy Economics Institute.
- Organized an outgoing mission of private and public sector participants. This included meetings with the Ministries of Foreign Affairs & Trade (MOFAT), Commerce, Industry, & Energy (MOCIE), and Marine Affairs & Fisheries (MOMAF).

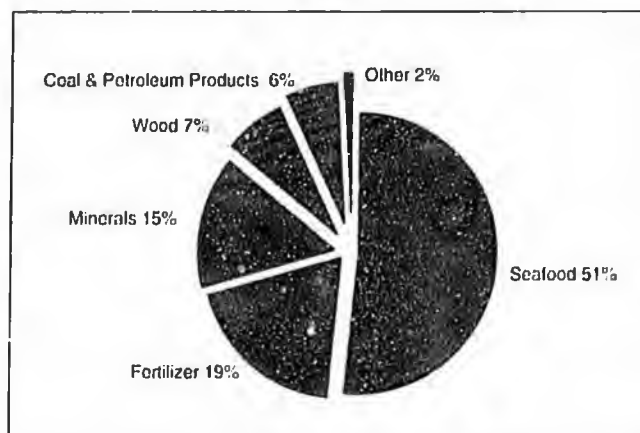
## Background

Korea has been one of Alaska's most important partners in trade, investment, and cultural exchange. For many years Korea has been our number two trading partner. In 1985, Alaska was the first U.S. State to open a trade office in Seoul. Korea is an important investor in transportation, coal, and fisheries. With approximately 6,000 Korean-Americans residents, the Korean community is an important contributor to the civic and business communities of Alaska. The Korean Ministry of Foreign Affairs and Trade appointed William Bittner in Anchorage as Honorary Consul General in 1999. In addition, Consul General Byung-rok Moon, based in Seattle, Washington also oversees Alaska-Korea affairs.

Alaska's Exports to Korea  
Yearly Totals • In Millions



Alaska's Exports to Korea  
2001





## Highlights

- Alaska exports rose 14 percent over the previous year, keeping Canada solidly in third place among Alaska export markets.
- Canadian investment in Alaska is responsible for about 80 percent of Alaska's mining exploration and development expenditures.
- Governor Knowles, Cabinet members, trade representatives, lawmakers and business representatives met with Canadian counterparts in Canada and in Alaska on a frequent basis, making 2001 an especially busy year for Alaska-Canada business overtures and discussions.

### The Division of International Trade and Market Development assists Alaska's businesses to export:

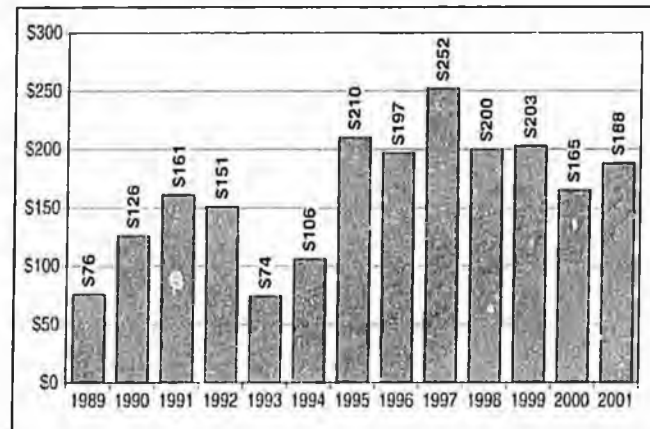
- Promoted cooperation with Canadian government and industry in planning for a transportation system to deliver North Slope natural gas to Canada and on to Lower 48 markets.
- Hosted government and industry delegations to enhance overall trade, tourism and cross-border activities.
- Disseminated information on Alaska-Canada business opportunities.

## Background

Alaska has a healthy, two-way trading relationship with Canada, which experienced growth in 2001. Substantial private Canadian investment continues to contribute to Alaska's billion-dollar mining industry. These investments serve as endorsements of Alaska's mineral prospects as well as the overall Alaska business climate. Representatives from Alaska's public and private sector, as well as Western Canadian provincial leaders and business community have devoted considerable time, energy and efforts to further developing trade relations. Although the proposed natural gas projects fueled much of the discussion, attention also focused on many other components of the Alaska-Western Canada partnership in tourism, trade, transportation and policy making.

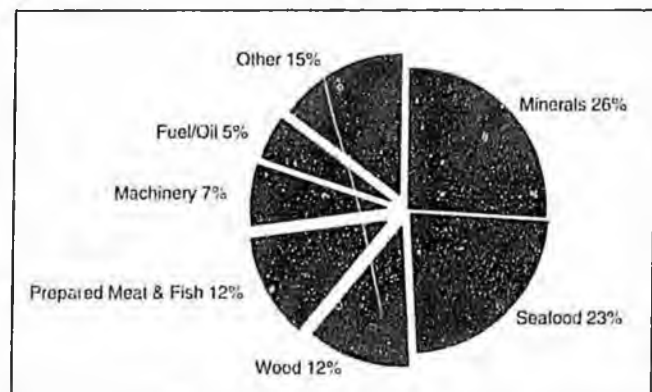
### Alaska's Exports to Canada

Yearly Totals • In Millions



### Alaska's Exports to Canada

2001





## Highlights

- Exports to Germany more than tripled totaling \$115 million in 2001, helping Alaska to diversify its export market. Europe now accounts for 20 percent of Alaska's exports.
- Exports of pollock fillets were the leading cause of the increase.
- German-speaking Europe is Alaska's top international tourism market.

## Background

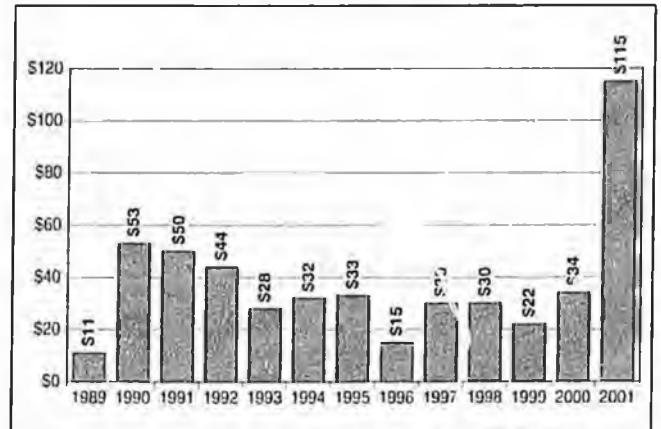
During the 1990s, exports to Germany averaged roughly \$20 million to \$40 million per year. In 2001, exports jumped to \$115 million led by strong exports of pollock fillets. In the past, Germany had purchased much of its pollock fillets from Russia. A low harvest in Russia caused Germany to turn to Alaska for its whitefish supplies. Germany's affluent, well-educated consumers are among the world's most health conscious. Concerns about traceability—the tracking of a secure food supply chain—have resulted in more direct exports from Alaska to Germany rather than indirect exports via a third “processor” country. Alaska also saw increases in other seafood products such as salmon, cod fillets, minced fish, and surimi. Prior to 2001 when seafood exports increased dramatically, the leading exports to Germany from Alaska was mineral ore.

It is often said that “trade follows tourism.” There is an undeniable link between tourism and trade. As tourists visit Alaska and are exposed to Alaska's products, trade is often stimulated from the increased awareness and demand created by the tourists when they return home to their native country. German speaking Europe (Germany, Austria, and Switzerland) is now Alaska's single largest market for international tourists.

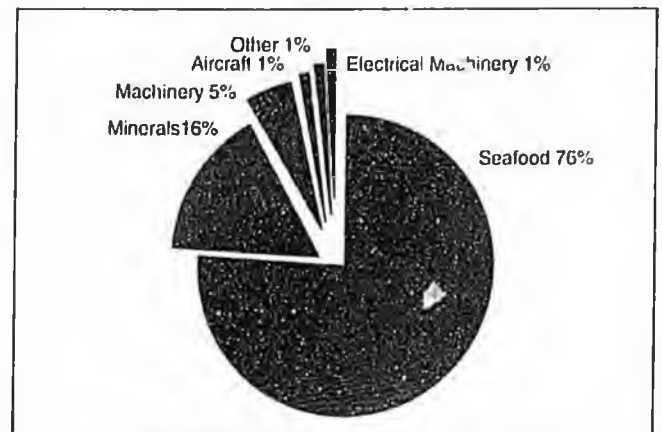
Lufthansa Cargo is an important customer to the state airport system and provides nonstop service between Fairbanks and Frankfurt. Condor Air also provides direct passenger service linking two Alaska cities, Anchorage and Fairbanks, with Frankfurt via scheduled charter service during the summer months.

To capitalize on the business opportunities in Germany for both Alaska's products and as a tourism destination, Governor Knowles led a group of top business leaders representing Alaska on a trade mission to Berlin and Frankfurt in March of 2002. The Alaska delegation met with current and potential Alaska customers in Germany and showcased Alaska's tourism potential in Berlin at the Internationale Tourismus-Börse (ITB), the world's largest travel conference. The Berlin schedule included meetings with European tour packagers and airlines; seafood meetings with German buyers and importers of Alaska salmon; a seafood promotion at a Berlin department store; and “Discover Alaska” visitor industry promotional events.

Alaska's Exports to Germany  
Yearly Totals • In Millions



Alaska's Exports to Germany  
2001





## Highlights

- 2001 marks the seventh consecutive year that exports are over \$100 million. Exports decreased slightly from \$103 million in 2000 to \$102 million in 2001.
- China's purchase of fish waste not for human consumption grew significantly: \$2 million in 1999, \$20 million in 2000 and \$27 million in 2001. The purchases are used for animal feed and China's extensive aquaculture.
- China's growing demand for forest products lifted Alaska's exports in that area from the \$1-2 million range to \$6 million in 2001.

**The Division of International Trade and Market Development (ITMD) assists Alaska's businesses to export:**

- Organized PRC Consulate mission to Alaska to familiarize Chinese officials with Alaska export industries.
- Commissioned a current overview of the forest products markets in China.
- Worked closely with industry and federal officials to resolve forest products' phytosanitary trade barriers.
- Completed an inventory of the ways in which other competing states have established trade representation within China.

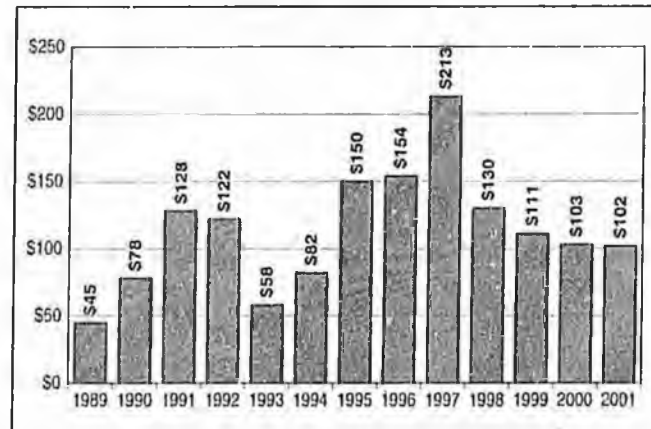
## Background

China is a relatively new market for Alaska. China is becoming a significant importer of Alaska seafood. Much of the seafood exported from Alaska to China is further processed for re-export while some is consumed in high-end markets in major cities. China, one of the largest markets in the world, remains a very cost sensitive market. At the same time, an increasingly affluent middle class continues to develop. China's ability to utilize fish waste for non-human feed is creating opportunities for an Alaska product that was once thrown away.

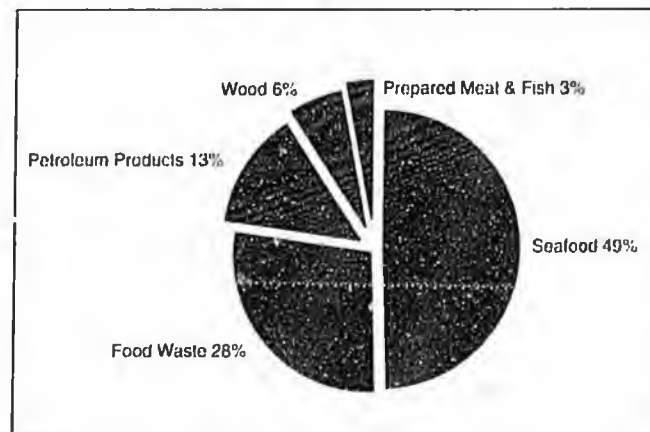
China's reductions in domestic logging activity, necessitated by past over harvest and flooding, have created import demand. Alaska's primary competitors in this area are Russia and New Zealand. Resolving phytosanitary issues concerning the import of round logs into China has been at the forefront of Alaska's marketing efforts for forest products in the past year.

Other areas of potential growth for Alaska's companies include technical services and air transportation links. For example, China's need for a wide variety of environmental services is growing, particularly as income levels rise in a nation with acute environmental needs such as safe water and wastewater treatment. Several carriers fly China/U.S. cargo routes via Anchorage. Although air transportation links have yet to be exploited fully, the presence of these flights offers future opportunity to shippers of high-end fresh seafood and other high value cargo.

**Alaska's Exports to China**  
Yearly Totals • In Millions



**Alaska's Exports to China**  
2001





## Highlights

- Exports to Mexico jumped over 120 percent to \$82 million in 2001.
- Exports to Mexico from Alaska has increased over 1485 percent since the North Atlantic Free Trade Agreement (NAFTA).
- Fertilizer was the number one export to Mexico from Alaska in 2001 totaling over \$56 million.

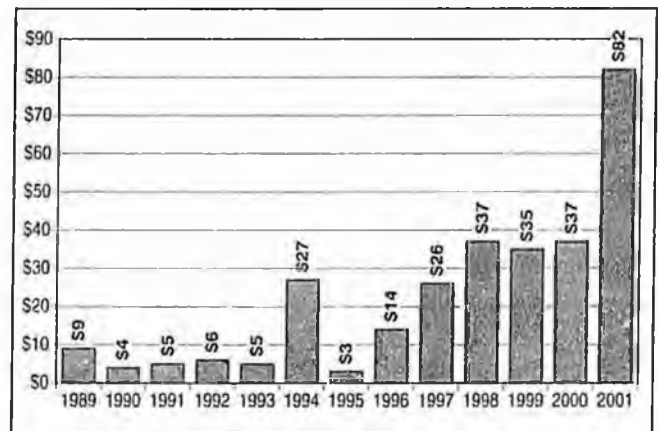
## Background

Since the enactment of the North American Free Trade Agreement (NAFTA) in 1993, Alaska's exports to Mexico have increased over \$75 million or 1,486 percent. Prior to NAFTA, Alaska ranked 50th among the U.S. states in exports to Mexico. In 2001 Alaska ranked 40th.

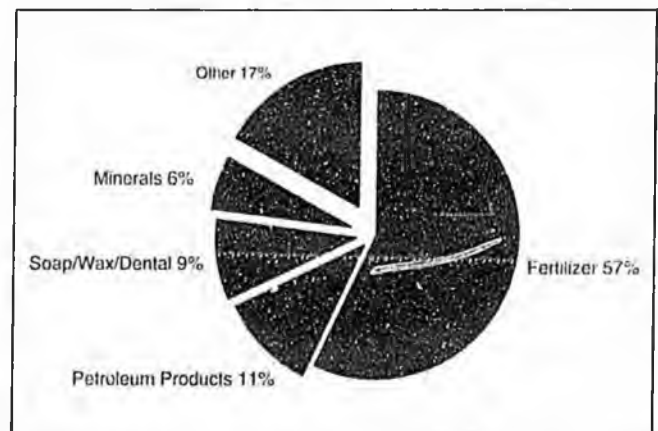
The primary export to Mexico in 2001 was fertilizer products from Agrium's plant in Nikiski. Fertilizer exports to Mexico were up 81 percent and totaled \$47.3 million in 2001. Alaska also exported over \$8 million of petroleum products (mostly gasoline) to Mexico in 2001. Mineral ore exports in 2001 totaled \$4.6 million.

*[Note: in the State of Origin data series, Alaska's third largest export to Mexico after gasoline was soap/wax/dental products totaling \$7 million in 2001. While this particular category can be found in the state of origin database, no reference can be found in the port series. The Division of International Trade and Market Development is currently researching the details of this export that accounted for 9 percent of Alaska's total exports to Mexico.]*

Alaska's Exports to Mexico  
Yearly Totals • In Millions



Alaska's Exports to Mexico  
2001





## Highlights

- Alaska's exports to Belgium totaled \$81.5 million in 2001, a decrease of 22 percent from 2000.
- Belgium was once again Alaska's number one export market for minerals.
- Belgium accounted for 22 percent of Alaska's mineral exports in 2001.

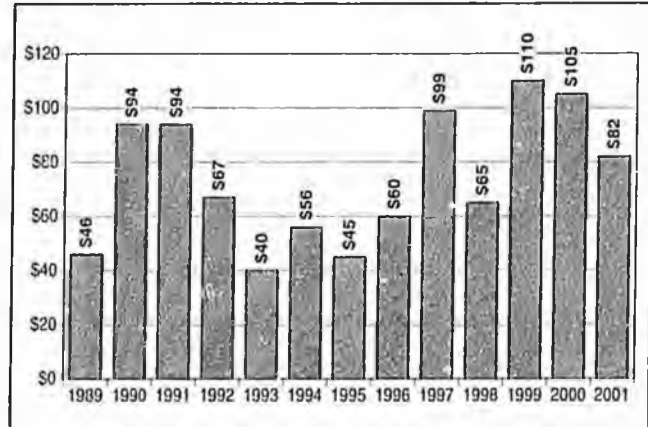
## Background

Belgium accounted for over one-fifth of Alaska's mineral exports in 2001. It is the number one importer of both zinc and lead ore from Alaska. Belgium has few natural resources, subsequently, it is a major importer of raw materials and exports large volumes of manufactured products. Alaska's metal ore exports are primarily transported to Belgium for smelting and then distributed mainly throughout the European Union. Iron and steel are major exports of Belgium, therefore matching Alaska's raw material resources.

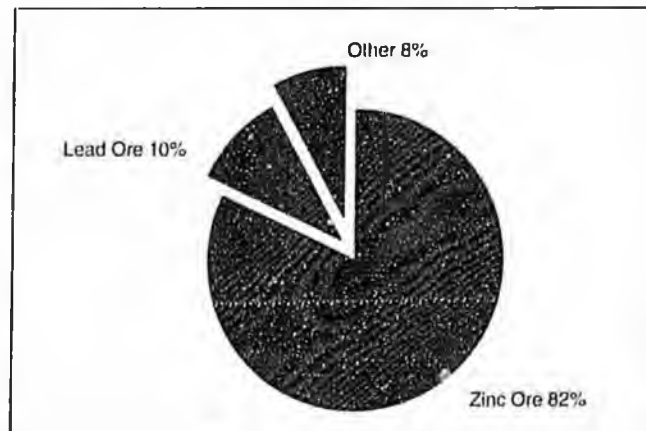
Belgium also imported approximately \$700 thousand worth of Alaska seafood, predominately salmon. Held in Brussels annually, the European Seafood Exposition, and Seafood Processing Europe, are major events for seafood buyers and sellers worldwide. These expositions, our trading ties, and Belgium's connections to the rest of Europe, represent an opportunity for Alaska seafood distribution throughout the region.

Belgium has a population of over ten million people or roughly the same as Pennsylvania or Ohio. Belgium built its modern economy by capitalizing on its central location in Europe and excellent transportation links to become a distribution hub for the region. Two-thirds of Belgium's trade is with other European Union (EU) nations, with 60 percent going directly to Germany. Belgium is one of the original members of the EU.

Alaska's Exports to Belgium  
Yearly Totals • In Millions



Alaska's Exports to Belgium  
2001





## Highlights

- Exports to Taiwan have decreased 30 plus percent for the second year in a row, as Taiwan continues to experience difficult economic times. A growing number of international companies have opted to establish direct business relations with counterparts in China's increasingly modernized large cities rather than with or through cities like Taipei or Hong Kong.
- Although Alaska exports dropped, a significant milestone was reached in 2001 for Alaska service exports to Taiwan. An Alaska firm won a bid with its joint venture Taiwan partner from the Taiwan Environmental Protection Agency for a significant oil spill response training contract.

### The Division of International Trade and Market Development assists Alaska's businesses to export:

- Represented Alaska seafood and produce industries at Mediphar, a "healthy living" trade show in Taiwan.
- Conducted weeklong familiarization visit for officials and executives interested in oil spill response training. Visitors included representatives from China Petroleum Corporation, Taiwan Environmental Protection Agency, and Taiwan Coast Guard.
- Organized and conducted two well-received videoconferences featuring Alaska environmental experts. Over 50 Taiwan business leaders, environmental specialists, research scientists, and government officials participated from sites in Taipei and Kaohsiung.

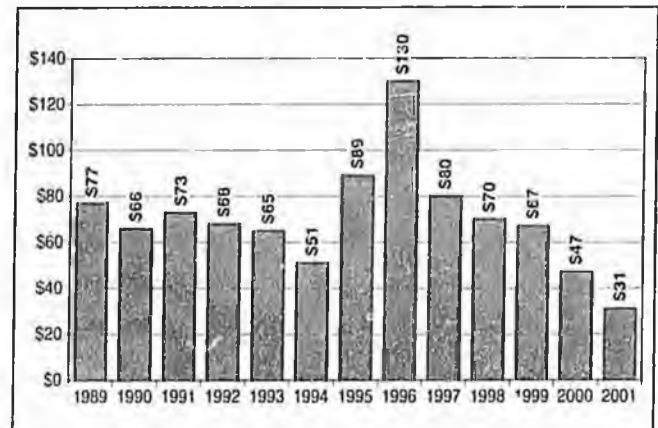
## Background

In 2001, Taiwan's economy faced the most challenging circumstances of the past half-century. The economy (GDP) registered 1.9 percent negative growth, with decreases in manufacturing production, the service sector and private investment. In addition, the unemployment rate increased to an all-time high of over five percent.

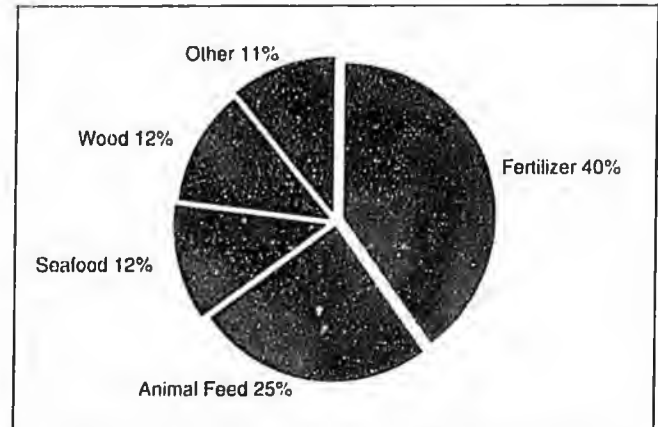
In spite of lackluster economic conditions in Taiwan, the demand for Alaska's goods and services continues. Taiwan's affluent consumers are increasingly becoming aware of the benefits of high quality and healthy foods. This growing awareness has created a window of opportunity for Alaska's virus-free seed potatoes. They are the only imported seed potatoes allowed entry into Taiwan. Furthermore, there is also a growing concern for the environment that has created demand for Alaska's expertise in the environmental service sector.

In 1989, Alaska was among the first American states to establish trade representation in Taiwan. Although economic difficulties within Taiwan are stalling sales, Alaska's resources continue to be a good match for Taiwan's consumer market.

Alaska's Exports to Taiwan  
Yearly Totals • In Millions



Alaska's Exports to Taiwan  
2001





## Highlights

- \$45 million Alaska-based concrete island drilling system, *Glomar Beaufort Sea I*, towed from North Slope to Russia by Crowley Alaska Maritime for use by Exxon Neftegas in Sakhalin.
- Alaska-Chukotka Summit attracted 200 plus Alaskans and a 25-person Chukotka delegation to two days of meetings in Nome to discuss Alaska-Chukotka cooperation.
- Russian Far East regions turned to Alaska on a continuing basis for services and for technical assistance, which Alaska was able to provide with USAID financial support.
- Weekly scheduled air service to Kamchatka and Magadan resumed, but state efforts to rebuild other RFE air routes were complicated by new security restrictions in the wake of the 9-11 attacks.
- Alaska was selected to host the 7th annual meeting of the West Coast-Russian Far East working group at conclusion of the 6th annual meeting in eastern Siberia. The Alaska event was set for Sept. 17-19, 2002, in Anchorage.

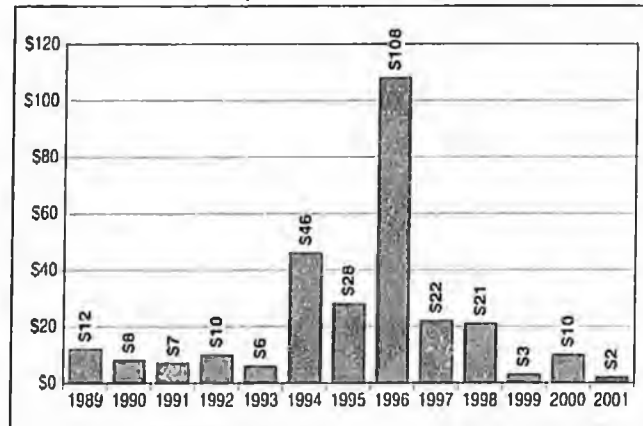
### The Division of International Trade and Market Development assists Alaska's businesses to export:

- Conducted an annual Russian Far East business symposium in conjunction with the Pacific Rim Construction Oil & Mining Expo and Conference, focusing in 2001 on Sakhalin and Magadan resource development opportunities.
- Arranged public presentations and private consultations with U.S. and Russian Far East government and business leaders in Alaska and in Russian Far East regions, with assistance from the State of Alaska trade representative based in Yuzhno-Sakhalinsk. Disseminating information on opportunities for Alaskans in the Russian Far East.
- Conducted a transportation roundtable to tackle the logistics problems created by the loss of some direct RFE air routes and working with aviation specialists and private carriers in an effort to restore aviation connections.
- Resolved logistics and bureaucracy to smooth cross-border activities. A prime example involves assisting Alaskans to win approval of visas so their Russian partners can travel to Alaska.

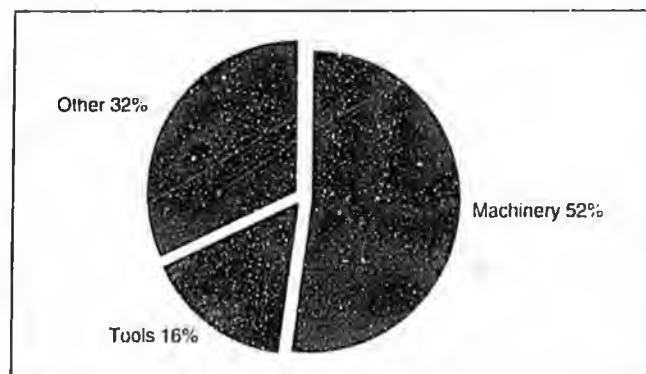
## Background

While Alaska exports to Russia rank outside the state's top export markets in commodity sales, Alaskans' interest in the Russian Far East continues to rank at or near the top among Alaska's international trading partners. Alaska services (oil field services, environmental services, engineering, technological, logistics, training, etc.) are an integral part of Alaska-RFE business equation. Many other Alaska-RFE cross-border activities, including tourism, exchanges (educational, scientific, cultural, Native), even humanitarian and technical assistance have significant economic impact as well.

Alaska's Exports to Russia  
Yearly Totals • In Millions



Alaska's Exports to Russia  
2001



## Seafood Sector Report

- Seafood exports were up 15.1 percent in 2001 totaling \$1.2 billion.
- Seafood exports increased for the third consecutive year, to the highest level since 1995.
- 2001 ex-vessel value of salmon declined 21 percent from 2000 despite volume being up 7.6 percent.
- Seafood exports to Germany soared 576 percent on the strength of pollock exports.
- Seafood exports to Korea, Alaska's second largest overseas market increased over 75 percent.

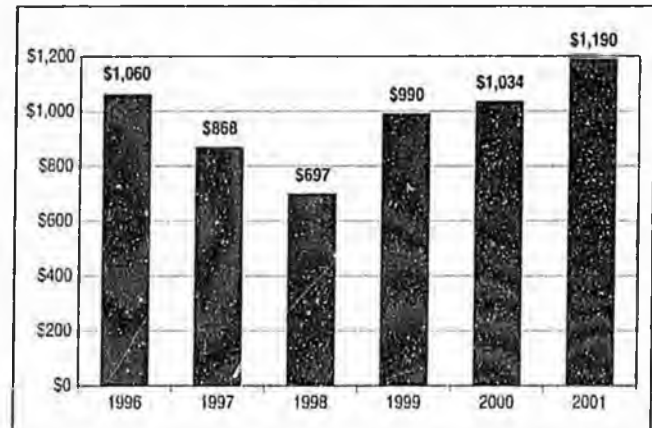
Seafood is Alaska's number one export commodity accounting for nearly 50 percent of all exports from Alaska. Despite some well-publicized problems with the salmon industry, Alaska's seafood exports increased over 15 percent in 2001. This marks the 3rd consecutive year of growth in seafood exports. Pollock and pollock roe were once again the main factors for the increase in seafood exports.

Due to declines in exports of pollock from Russia, Germany purchased large quantities of pollock from Alaska. Germany jumped to Alaska's third best overseas market for seafood in 2001 from number seven in 2000. Following this trend, in recent years there has been an increasing amount of seafood being sold to European countries. Most of the exports to Europe are groundfish such as pollock and cod. With lower catches in the North Sea and North Atlantic many of the European countries are looking to Alaska to supply their seafood demand.

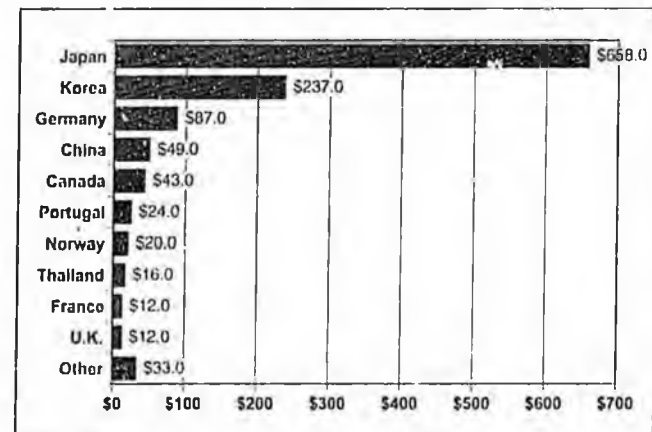
Seafood exports to Korea increased over \$100 million dollars in 2001 to total \$237 million. Pollock products including roe and fillets were the primary reasons for the increase. Despite the continuation of the decade long economic downturn, Japan is by far Alaska's number one market for seafood. Japan accounted for over 55 percent of Alaska's total seafood export market in 2001.

The salmon industry once again faced a difficult challenge from stiff competition from farmed salmon as well as low commercial harvests. Red (sockeye) salmon, the state's most important salmon for export declined in ex-vessel value 38 percent in 2001. Overall harvest of red salmon was down 21 percent in 2001. Preliminary prices (estimates that do not include any possible postseason adjustments) show that on average fisherman received only 57 cents per pound for sockeye salmon in 2001 versus 76 cents in 2000.

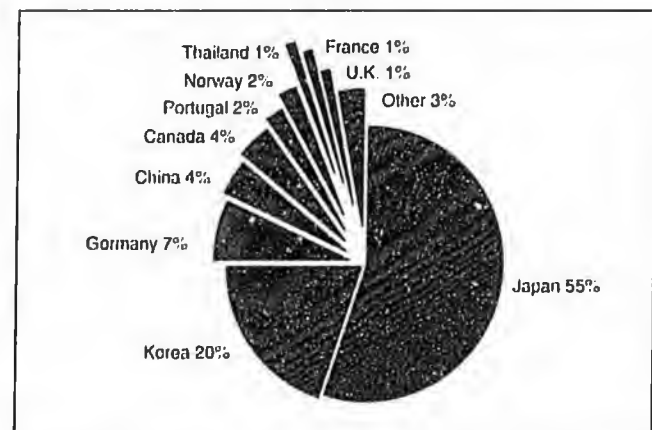
### Seafood Exports from Alaska In Millions



### Alaska's Seafood Markets 2001



### Alaska's Seafood Markets 2001



# Energy (Petroleum Products, LNG, and Coal)

## Energy Sector Report

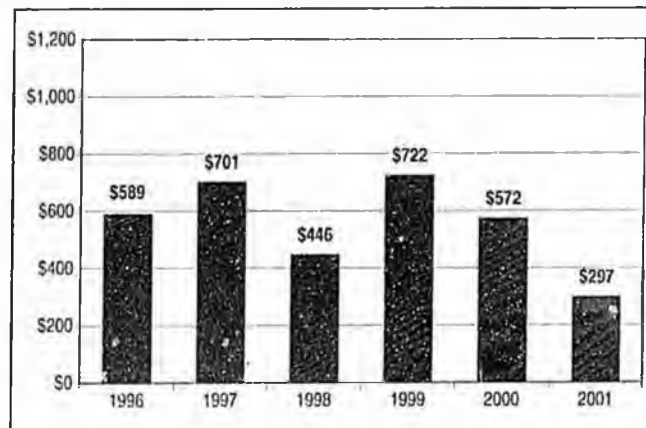
- Alaska's Energy exports such as oil, liquefied natural gas, coal, and refined petroleum products declined 48 percent in 2001 to \$297 million.
- The decrease was almost entirely attributable to the decline in crude oil exports.
- Liquefied natural gas exports to Japan held steady at \$145 million for 2001.
- Exports of value-added refined petroleum products such as naphtha, gasoline, and fuel oil increased 10 percent to \$134 million in 2001.

Despite the large negative numbers, Alaska's report card for energy exports would read a "B" perhaps even a "B+." Almost all of the decline in energy exports during 2001 can be attributed to the anticipated decline in exports of crude oil. Of all the exports, crude oil perhaps has the smallest benefit difference between product exported versus sold domestically. Despite the decline in exports, all of the crude oil produced in Alaska has no problem in finding a market.

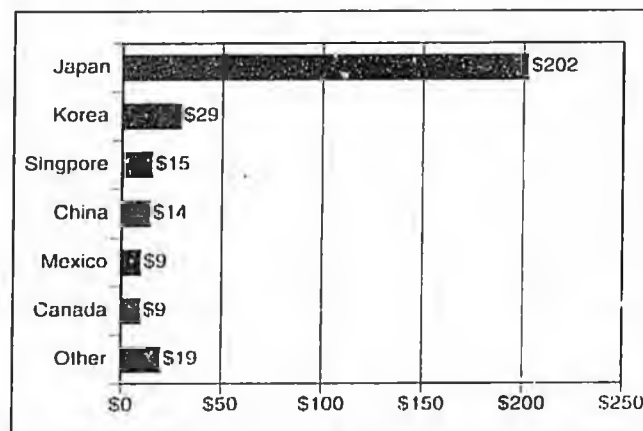
The bright spot in energy exports was the 10 percent increase in refined petroleum products such as naphtha, LNG, fuel oil, and gasoline. By adding value in state, Alaskans maximize the value of the natural resources produced in Alaska.

LNG exports to Japan in 2001 marked the 34th consecutive year Alaska has exported commercial quantities of LNG to Japan. An extended LNG contract was signed between Alaskan sellers and Japanese buyers. The new contract will run from 2005 to 2009. 2001 coal exports to Korea were also steady at over \$16 million in 2001. However, there are concerns the coal contract will not be renewed in 2002 due to intense competition from Indonesian coal.

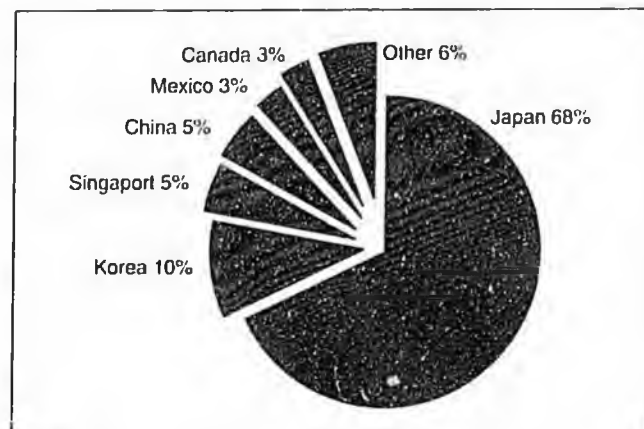
Energy Exports from Alaska  
(Petroleum Products, LNG, and Coal)  
In Millions



Alaska's Energy Markets  
2001



Energy Exports from Alaska  
(Petroleum Products, LNG, and Coal)  
2001



## Mineral Sector Report

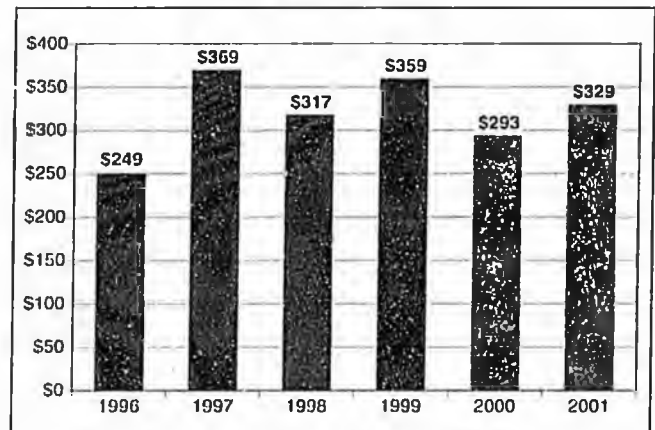
- The overall value of the minerals industry in Alaska is estimated to be \$1.022 billion in 2001, a 21 percent decrease from the \$1.283 billion 2000 value.
- Total mineral exports were up 12.3 percent in 2001.
- Exploration investment decreased 17 percent in 2001.
- Development expenditures decreased 40 percent in 2001.
- The gross value of Alaska's mineral products decreased 17 percent.
- The price of zinc, Alaska's largest export mineral, was 22 percent lower than in 2000.
- In 2001, the State of Alaska resumed airborne geophysical surveys under the auspices of the Division of Geological and Geophysical Surveys (DGGS).

Mineral exports were up 12 percent in 2001 from \$293 million to \$329 million. The estimated value of Alaska's mineral production in Alaska was \$917 million in 2001, a decrease from \$981 million in 2000. However, 2001 production at Red Dog mine was comparable to 2000 levels, as mill upgrades continued into the 4th quarter of 2001. Production at Red Dog is expected to increase about eight percent in 2002. Red Dog produced 571,000 tons of contained zinc in 2001, versus 585,000 in 2000. Greens Creek produced 64,000 tons in 2001, versus 84,000 tons in 2000. Total production was 635,000 tons in 2001, versus 669,000 in 2000.

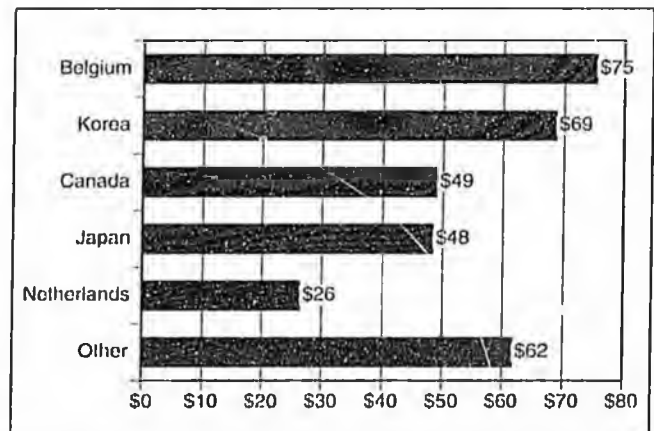
Exploration investment was down from \$34.9 million in 2000, to \$23.4 million in 2001 as a result of low metal prices. The low prices hindered the abilities of companies to raise capital for mineral exploration. Estimated mineral exploration was at its lowest point since 1987.

The decrease of development expenditures resulted primarily from the completion of the \$105 million Mill Optimization Project at the Red Dog mine in the northwest region, offset by developments at Fort Knox, Pogo, and True North mines.

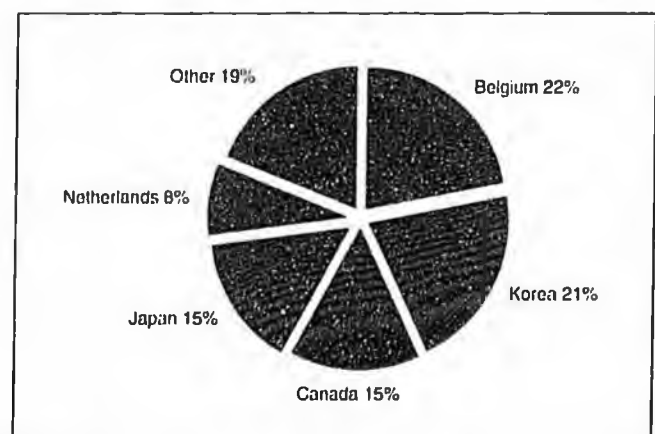
### Minerals Exports from Alaska In Millions



### Alaska's Minerals Markets 2001



### Minerals Exports from Alaska 2001



# Fertilizer

## Fertilizer Sector Report

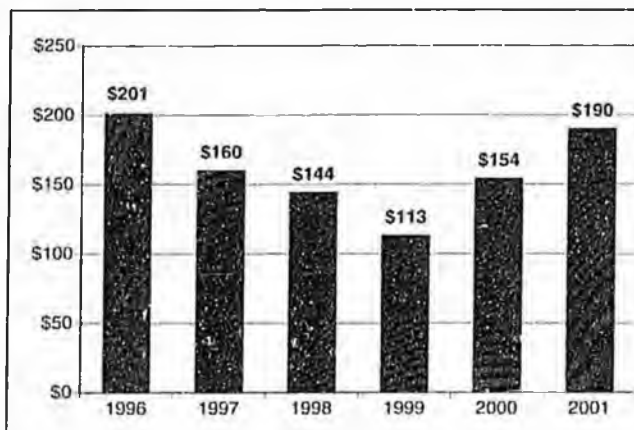
- Alaska's exported \$190 million worth of fertilizer in 2001.
- Fertilizer is produced at the Agrium plant in Nikiski.
- Total fertilizer exports were up 23 percent in 2001.
- Alaska exported fertilizer to 13 countries in 2001.
- Korea was Alaska's largest fertilizer market in 2001.
- Fertilizer exports to Mexico increased 80 percent in 2001.
- Alaska's fertilizer exports consist primarily of Anhydrous Ammonia and Urea (a concentrated dry source of nitrogen).
- in 2001, total ammonia production was 700,000 tons and urea production was 1.1 million tons.

## Background

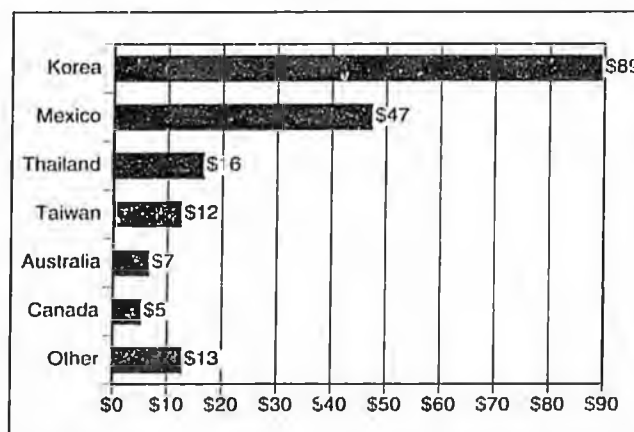
The total value of Alaska's fertilizer exports surpassed Alaska's timber exports for the first time in 2001. Total fertilizer exports increased by 23 percent in 2001. Alaska exported fertilizer to 13 countries, with 46 percent going to Korea, and 25 percent to Mexico. The majority of the fertilizer produced in Alaska is destined for large-scale agricultural use. Two types of products, ammonia and urea, are the majority of Alaska's fertilizer exports. Production of these two fertilizer products takes place at Agrium Inc.'s plant in Nikiski on the Kenai Peninsula. With 300 employees, Agrium is one of the largest private employers in the region. The fertilizer production process utilizes one of Alaska's abundant natural resources (natural gas) and converts it to a value-added product (fertilizer).

In addition to Agrium's large-scale fertilizer production, several Alaska small businesses currently produce plant food type fertilizer that is made from organic ingredients such as, wood, ash, kelp, seashells, and fishmeal.

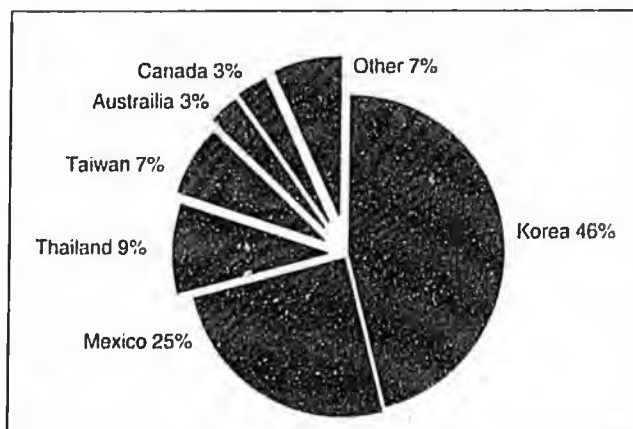
Fertilizer Exports from Alaska  
In Millions



Alaska's Fertilizer Markets  
2001



Fertilizer Products Exports from Alaska  
2001



# Forest Products

## Forest Products Sector Report

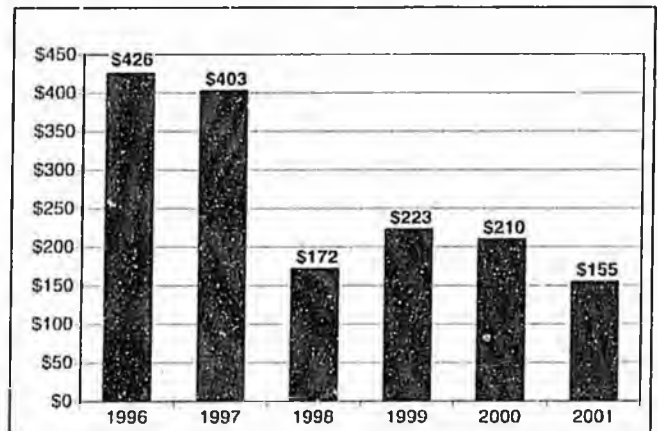
- Continued economic slump in Japan keeps market demand and prices low for Alaska logs and lumber.
- 2001 was a difficult year for Alaska forest products as exports declined 26 percent from 2000.

Federally funded activities to reduce fire hazards and create defensible space around Kenai Peninsula communities are ongoing. This concerted effort supports approximately 100 jobs in logging and chipping spruce bark beetle killed timber for export to Pacific Rim pulp mills. It is anticipated that the beetle killed timber supplies will support this increased level of activity for the next 5 to 10 years.

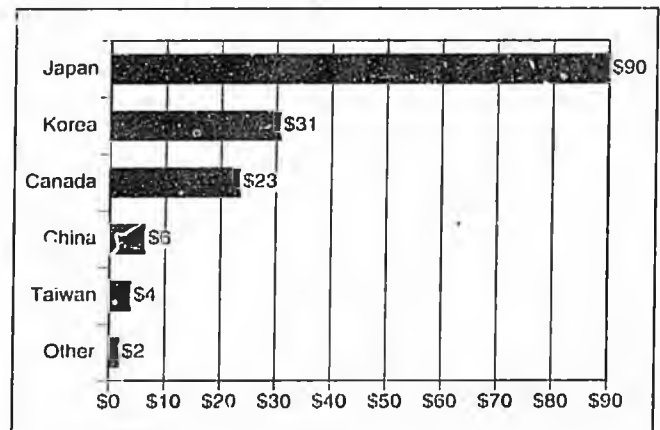
In June 2001, the USDA Forest Service awarded \$2 million in grants for dry kilns and associated equipment to seven Alaska companies. These grants will dramatically improve the competitive position of the Alaska industry. The grantees cover a wide range of small to large-scale mills and include primary lumber mills as well as specialty secondary processors.

Continued economic difficulty in the Japanese economy has reduced its importance to Alaska round log and lumber exporters. Over the past few years, Alaska woods product exporters have worked to strengthen their presence in Korea, China, and other Asian markets. Their work and Japan's market slump is clearly shown in the destination pie chart. For the past few decades Japan has purchased 70 to 90 percent of Alaska's wood product exports.

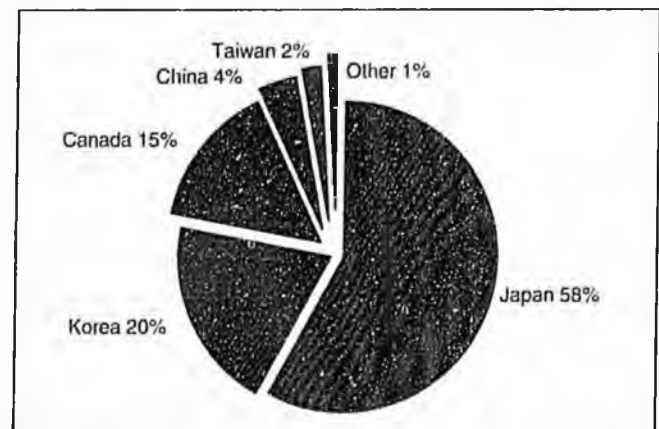
Forest Products Exports from Alaska  
In Millions



Alaska's Forest Products Markets  
2001

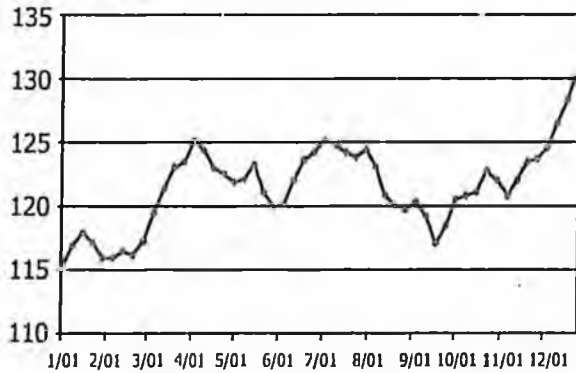


Forest Products Exports from Alaska  
2001

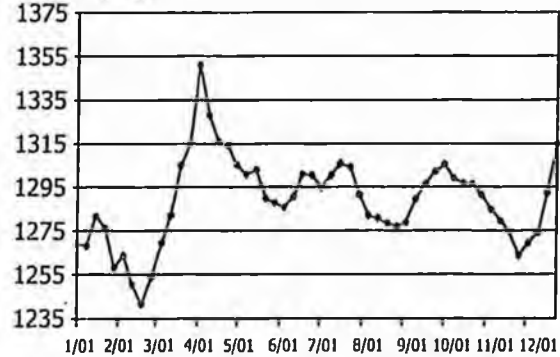


# 2001 Currency Movements

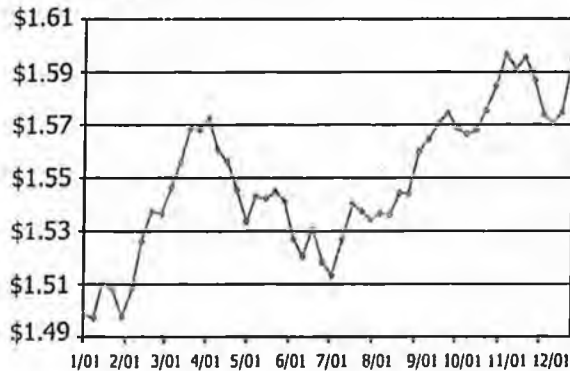
 **Japanese Yen**



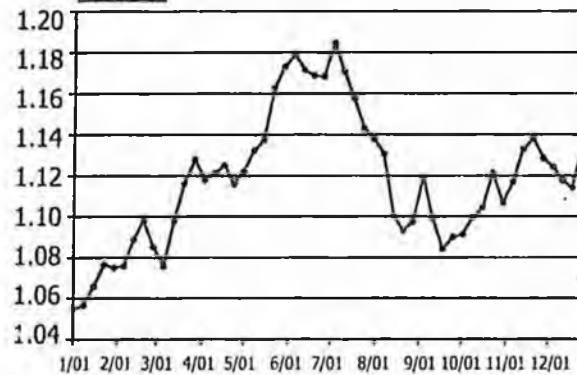
 **Korean Won**



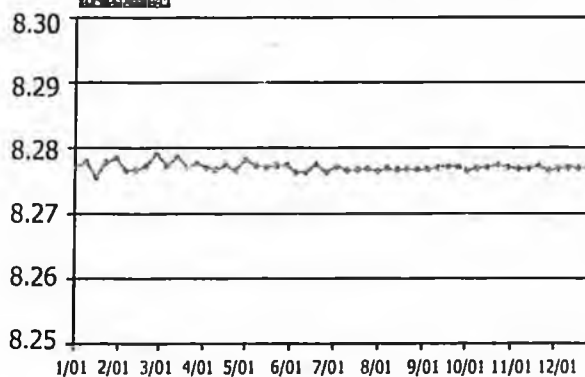
 **Canadian Dollar**



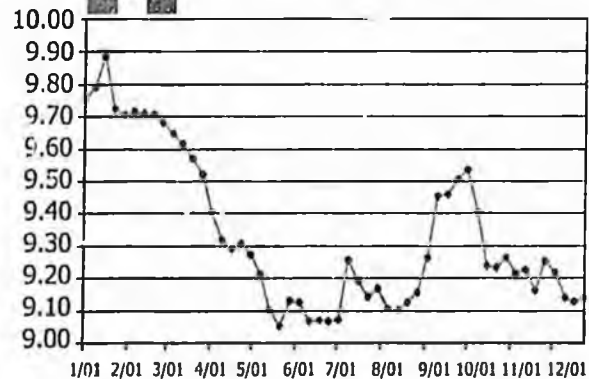
 **European Euro**



 **Chinese Renminbi**



 **Mexican Peso**



# Foreign Direct Investment

Foreign direct investment (FDI) in Alaska plays a significant role in the development and growth of our major industries. These investments are important not only because they generate tax revenues and create jobs for thousands of Alaskans; they are also a vote of confidence in Alaska as a good place to do business.

The U.S. Department of Commerce reports that investment in Alaska by U.S. affiliates of foreign companies, as of 1999, totaled \$28 billion. That total ranked Alaska thirteenth among all American states as a recipient of FDI. While the majority of this amount is due to British Petroleum's investment at Prudhoe Bay and the Trans-Alaska Pipeline, other significant investors include Canadian and Japanese firms involved with seafood, mining and tourism operations in Alaska.

There are numerous examples. Marubeni Corporation of Japan owns North Pacific Seafoods which has processing plants in six Alaska communities and employees over 500 workers. Another Japanese investor in the Alaska seafood industry is Maruha. The company owns Western Alaska Seafoods in Kodiak and has ownership stakes in Westward Seafoods and Alyeska Seafoods, both at Dutch Harbor. These companies account for nearly 1,000 permanent and seasonal jobs.

Alaska's mining industry has attracted significant Canadian investment. Cominco, a Canadian firm, owns Red Dog, the world's largest zinc mine located north of Kotzebue. Red Dog has invested over \$600 million in facilities at the mine. Two other Alaskan mining operations are also foreign owned: Fort Knox by Kinross, based in Toronto and the Greens Creek Mine which is majority owned by Rio Tinto, a British company.

In addition, foreign firms, mainly Canadian, spend considerable sums on mineral exploration in the state. Records show that of the \$804 million spend on exploration since 1981, about 60% (\$482 million) was carried out by non-U.S. companies.

The state's tourism industry also benefits from overseas investment. Kokudo, a Japanese company, for example, owns the Alyeska Resort at Girdwood. The company has invested over \$150 million into the hotel, tram and other facilities. The resort employs 400 workers seasonally, with an annual payroll exceeding \$12 million. In Anchorage, the Regal Alaskan Hotel, once owned by a Hong Kong company, has recently been sold to one based in Singapore. Headquartered in London, P & O Princess Cruises PLC operates the Princess Cruise Line whose ships call at ports in Alaska. The company has made direct investments in four hotels in the state.

It is important to note that the FDI figures in this report do not reflect the money spent by these companies on payroll, procurement of supplies and services, taxes, and other significant contributions to the communities where they have invested.

The Division of International Trade and Market Development works closely with many of these international companies and provides information and assistance to others who are considering an investment in our state. Though often a long-term proposition, success in attracting business and investment to the state will pay dividends long into the future.

# Governor's Exporter of the Year Award

Each year the Export Council of Alaska organizes the Alaska Export Banquet in May, around the time of "World Trade Week," as proclaimed by the U.S. Department of Commerce. During the banquet, the Governor presents the coveted Governor's Exporter of the Year award.

"Trade is very important to Alaska," said Governor Tony Knowles. "This award gives the State of Alaska an opportunity to recognize companies, both large and small, that expand our economy and create good jobs for Alaskans."

## Award Recipients

2000	(Presented May 24, 2001)	
	Winner	VECO Corporation
1999	Winner	Arctic Slope Regional Corp.
1998	Winner	Cominco Alaska Inc.
1997	Winner	Reeve Aleutian Airlines and Circumpolar Expeditions
1996	Winner	North Pacific Processors, Inc.
1995	Winner	Tesoro Alaska Petroleum Company
1994	Winner	ERA Aviation
1993	Winner	Apocalypse Design
1992	Winner	DAT/EM International
1991	Winner	Cominco Alaska Inc.
1990	Winner	Federal Express
1989	Winner	Klukwan Forest Products
1988	Winner	Sealaska Corp.
1987	Winner	Sea Hawk Seafoods
1986	Winner	Seley Corp.



Left to right: Lt. Governor Fran Ulmer; Pete Leathard, VECO Corporation President; and Governor Tony Knowles.

# Alaska's Consular Corps

## CONSULATE GENERAL OFFICE

Consulate General of Japan  
3601 C Street, Suite 1300, Anchorage, AK 99503  
Phone: (907) 562-8424 Fax: (907) 562-8434  
e-mail: cgjpnak@ptialaska.net

Consul General Kazuo Obinata  
Consul Kenichi Okada  
Consul Yoshitsugu Shikada  
Consul Satoshi Ozawa  
Vice Consul Fusaji Saikawa

## HONORARY CONSULS

### Austria

Honorary Consul Walter J. Hickel, Jr.  
Consulate of Austria  
939 W. 5th Avenue, Anchorage, AK 99501  
Phone: (907) 343-2280 Fax: (907) 343-2211

### Belgium

Honorary Consul Carl F. Brady, Jr.  
Consulate of Belgium  
PO Box 107502, Anchorage, AK 99501  
Phone: (907) 276-5617 Fax: (907) 257-6394

### Canada

Honorary Commercial Representative  
Ron C. Sheardown  
Consulate of Canada  
3512 Campbell Airstrip Road  
Anchorage, AK 99504  
Phone: (907) 333-1400 Fax: (907) 333-1800

### Czech Republic

Honorary Consul Frank Nosek  
Consulate of the Czech Republic  
310 K Street, Suite 601, Anchorage, AK 99501  
Phone: (907) 274-2602 Fax: (907) 258-2001

### Denmark

Honorary Consul Frank Danner  
Royal Danish Consulate  
3111 C Street, Suite 100, Anchorage, AK 99503  
Phone: (907) 261-7600 Fax: (907) 261-7670

### Finland

Honorary Consul Wayne A. Stolt  
Consulate of Finland  
1529 P Street, Anchorage, AK 99501  
Phone: (907) 274-6607 Fax: (907) 279-2060

### France

Honorary Consul Colette LaRose  
Agence Consulaire de France  
2606 C Street, Suite 3  
Anchorage, AK 99503  
Phone: (907) 222-6232 Fax: (907) 222-6072

### Germany

Honorary Consul Bernd C. Guetschow  
Consulate of the Republic of Germany  
425 G Street, Suite 650, Anchorage, AK 99501  
Phone: (907) 274-6537 Fax: (907) 274-8798

### Iceland

Honorary Consul Bjartmar "Bart" Sveinbjörnsson  
Consulate of Iceland  
9550 Midden Way, Anchorage, AK 99507  
Phone: (907) 338-3535 Fax: (907) 786-4607

### Italy

Honorary Consul Victor Montemezzani  
Consulate of Italy  
P.O. Box 242241, Anchorage, AK 99524  
Phone: (907) 762-7664 Fax: (907) 762-7663

### Korea

Honorary Consul William H. Bittner  
Consulate of the Republic of Korea  
1127 West 7th Avenue, Anchorage, AK 99501  
Phone: (907) 276-1550 Fax: (907) 276-3680

### Mexico

Honorary Consul Lina Ruiz  
Consulate of Mexico  
3000 Rosaline Loop, Anchorage, AK 99507  
Phone: (907) 265-2942 Fax: (907) 265-2070

### Norway

Honorary Consul Anton Z. Meyer  
Royal Norwegian Consulate  
203 W. 15th Avenue, Suite 105  
Anchorage, AK 99501  
Phone: (907) 279-6942 Fax: (907) 279-4912

### Russian Federation

Honorary Consul Steve R. Smirnoff  
Consulate of the Russian Federation  
3581 Kachemak Circle  
Anchorage, AK 99515-2337  
Phone: (907) 349-5481 Fax: (907) 522-1489  
Email: bahamas@alaska.net

### Seychelles

Honorary Consul Harold Green  
Republic of Seychelles  
P.O. Box 111909, Anchorage, AK 99511-1909  
Phone: (907) 244-5375 Fax: (907) 345-5607

### Slovak Republic

Honorary Consul Andrea Quam  
6623 Lunar Drive (Baxter Bog)  
Anchorage, AK 99504  
Phone: (907) 338-3085 Fax: (907) 258-5167

### Spain

Honorary Vice Consul Robert Gonzalez  
Consulate of Spain  
14900 S. Windsor Circle, Anchorage, AK 99516  
Phone: (907) 345-5747 Fax: (907) 345-5867

### Sweden

Honorary Consul Ed Rasmuson  
Consulate of Sweden  
301 W. Northern Lights, Anchorage, AK 99503  
Phone: (907) 265-2927 Fax: (907) 265-2068

### United Kingdom

Honorary Consul Diddy R.M. Hitchins, Ph.d.  
British Consulate  
University of Alaska Anchorage  
3211 Providence Drive, Anchorage, AK 99508  
Phone: (907) 786-4848 Fax: (907) 786-4647  
Email: AFDHI@uaa.ak.us

# Sister States & Sister Cities

## Sister States/Provinces

Heilongjiang Province, China  
Khabarovsk Region, Russia

## Sister Cities

Anchorage	Chitose, Japan Darwin, Australia Incheon, Korea Magadan, Russia Tromso, Norway Whitby, England
Fairbanks	Aix-Les-Bains, France Mo-I-Rana, Norway Tainan City, China
Fairbanks North Star Borough	Yakutsk, Russia
Homer	Teshio, Japan Yelisovo, Russia
Juneau	Camiling, Phillipines Chai-I Township, China Lenin District, Vladivostok, Russia Whitehorse, Canada
Kenai	Okha, Sakhalin Island, Russia
Ketchikan	Prince Rupert, Canada Kanayama, Japan
Kotzebue	Lavrientiya, Russia
Nome	Provideniya, Russia
North Pole	Itadori-Mura, Japan
Palmer	Saroma, Japan
Petersburg	Hammerfest, Norway
Savoonga	Sereniki, Russia
Seward	Obihiro, Japan
Sitka	Nemuro, Japan
Soldotna	Nogliki, Sakhalin, Russia
Unalaska	Petropavlovsk-Kamchatsky, Russia
Wasilla	Mirniy, Russia
Wrangell	Noshiro, Japan



## Mission Statement

As adopted by the 22nd Alaska State Legislature, the mission of the Division of International Trade and Market Development (ITMD) is to increase international trade and investment in Alaska.

## Core Functions of the Trade Program

### Assist Alaska Companies Sell Their Goods and Services Overseas

- **CONNECTING BUYERS AND SELLERS** — experienced trade specialists in Alaska and state trade representatives abroad locate overseas buyers and help overseas buyers connect with Alaskan suppliers.
- **OVERSEAS REPRESENTATION**—the division maintains active trade representation in Tokyo, Japan; Seoul, Korea; Taipei, Taiwan; and Yuzhno-Sakhalinsk, Sakhalin.
- **TRADE MISSIONS, OUTBOUND AND INBOUND**—ITMD leads business missions to and from targeted markets and arranges seminars, presentations and one-on-one meetings with potential customers.
- **TRADE SHOWS**—the division promotes Alaska products and services at major trade and catalog shows, and assists Alaska companies to follow up on leads generated by trade show participation.
- **PROMOTE ALASKA AS A LOCATION FOR FILM PROJECTS**—The filming of motion pictures, television programs, advertisements, documentaries and catalog shoots are projects that will bring significant dollars into the Alaska economy
- **RECRUIT BUSINESS AND INVESTMENT TO ALASKA**—Growth and diversification of the economy creates expanded job opportunities for Alaskans. The division promotes Alaska as a location for companies seeking to relocate or expand.

### Provide Information

- **WEB SITE**—information on Alaska's top export markets is continually updated and posted on the division's web site. A variety of division publications are accessible by visitors to the site. In addition, the site provides linkages to public and private sector trade organizations.
- **NEWSLETTERS**—the division produces and distributes a regular series of reports that provide information and analysis on trade opportunities, market conditions, currency and commodity price movements and other developments with potential impact on Alaska exports.
- **TRADE SEMINARS**—ITMD presents seminars designed to help Alaska firms gain the information and technical expertise necessary to conduct international business and more effectively compete in the global marketplace.
- **CUSTOMIZED REPORTS**—In response to requests from the private sector, the division prepares customized reports on specific market opportunities.

### Advance Government-to-Government Relations

- **OPENING DOORS**—In Alaska's major export markets, an introduction by government can play an important role in fostering successful business relationships.
- **ADVOCATING FOR ALASKANS**—ITMD acts as a liaison and advocate in foreign markets, finds information on policies and procedures, and works to resolve difficulties that can arise when doing business in an unfamiliar environment.
- **INVESTMENT PROMOTION**—The division promotes investment in Alaska development projects through government-to-government contacts as well as contacts with private sector companies.
- **MULTIPLYING OPPORTUNITIES**—In order to better serve the state's trade community, the division is co-located with the U.S. Department of Commerce, Alaska Export Assistance Center, bringing Alaskans the resources of both state and federal governments. ITMD also works closely with private trade organizations such as World Trade Center Alaska and the Export Council of Alaska, and industry organizations such as the Alaska Seafood Marketing Institute and the Resource Development Council.

# Notes

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*Email: [AKtrade@dced.state.ak.us](mailto:AKtrade@dced.state.ak.us)*

*Website: [www.dced.state.ak.us/tradel](http://www.dced.state.ak.us/tradel)*

# Alaska

Division of Investments

Department of Community & Economic  
Development

House Community & Regional  
Affairs Committee

Division of Investments Overview

**ALASKA DIVISION OF INVESTMENTS**  
**DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**  
**Duties & Responsibilities**

**Administration of Loan Programs**

The Alaska Division of Investments (the Division) administers and services 15 loan programs under the Department of Community & Economic Development. These programs were primarily designed to promote economic development through direct state lending in industries that are not adequately serviced by the private sector.

Active lending is available in four loan programs: Commercial Fishing, Fisheries Enhancement, Small Business Economic Development, and Rural Development Initiative Fund. These loan programs strengthen and diversify Alaska's economic base by supporting a self-sustaining private structure. Private sector financing for these programs is generally not feasible due to constraints on the types of collateral available or because of the high-risk nature of these loans.

The Division provides loan servicing for eight inactive loan programs. These programs do not have funding available for new loans; however, the Division continues to collect payments which are returned to the General Fund.

**Servicing Other State Agencies' Loan Portfolios**

The Division provides loan servicing in eight portfolios for four state agencies - the Alaska Industrial Development and Export Authority, and the Alaska Departments of Military and Veterans Affairs, Health and Social Services, and Environmental Conservation.

The combined functions (approval, servicing, collections, and data processing) can be performed more efficiently when they are consolidated into one agency. The complexities involved in some of these functions (e.g., bankruptcies, foreclosure, hazardous waste investigation, and repossessed properties) require a level of expertise that is easier to support when consolidated. These agencies find it more cost effective to have the Division perform these functions.

**Statistics as of June 30, 2002**

	Number of Loans	Principal Balance Outstanding
DCED Loans	2,139	149,821.9
Other Accounts*	976	50,147.0
Other Agencies' Loans	266	10,545.6
Other Accounts*	39	814.1
<b>TOTAL</b>	<b>3,420</b>	<b>211,328.6</b>

\*Other accounts include judgments, deferred interest, accounts receivable, and repossessed property.

ALASKA DIVISION OF INVESTMENTS  
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

Director's Office

- Program Administration
- Establish Policies & Procedures
- Budget Planning & Control
- Facilities Management
- Personnel Management

Lending Branch

- New Applications
- Refinances
- Assumptions
- Payment Extensions
- Collections
- Fisheries Enhancement Tax  
Receipt Administration
- Collateral Insurance
- Delinquent Loan Collection
- Foreclosure & Bankruptcy  
Management
- Repossessed Property Management  
& Resale

Systems Branch

- Payment Receipt
- Credit Reporting
- Commercial & Mortgage Loan  
Accounting
- Litigation Accounting
- Computer Systems Maintenance &  
Operations
- Cash Availability Analysis
- Cash Flow Projections
- Loan Files Management &  
Maintenance
- Reception
- Word Processing

**ALASKA DIVISION OF INVESTMENTS**

**Inactive Loan Programs**

<b>Loan Fund</b>	<b>Purpose</b>	<b>Maximum Loan</b>
<b>Alternative Technology &amp; Energy Revolving Loan Fund (RLF)</b> AS 45.88.010 -.050 3 AAC 78.010 -.900 Enacted in 1978 Inactive since 1986	Purchase, construct and install alternative energy systems; develop and implement less costly, less energy-intensive technology.	5% interest on loans under \$15,000
		15% interest on loans \$15,000 to \$30,000  20 year maximum term
<b>Child Care Facilities RLF</b> AS 44.32.240 -.275 3 AAC 82.010 -.900 Enacted in 1976 Inactive since 1986	Construct or renovate a child care facility or purchase equipment for a child care facility.	\$50,000 maximum loan  20 year maximum term  7% interest rate
<b>Historical District RLF</b> AS 45.98.010 -.070 3 AAC 83.010 -.900 Enacted in 1980 Inactive since 1986	Restore, improve, rehabilitate, and maintain historical buildings.	\$250,000 maximum loan  30 year maximum term  7.5% interest rate
<b>Mining RLF</b> AS 27.09.010 -.060 3 AAC 87.010 -.900 Enacted in 1980 Inactive since 1986	Advanced mineral exploration and mining development.	\$5 million maximum loan  15 year maximum term  10.0% interest rate
<b>Residential Energy Conservation RLF</b> AS 45.89.010 -.070 3 AAC 79.010 -.900 Enacted in 1980 Inactive since 1986	Energy conservation improvements on existing buildings.	\$5,000 maximum loan  10 year maximum term  Interest rate tied to the market rate.
<b>Small Business RLF</b> AS 45.95.010 -.080 3 AAC 86.010 -.900 Enacted in 1971 Repealed in 1981	Acquire, finance, refinance, or equip businesses.	\$500,00 maximum loan  15 year maximum term  9.5% interest rate
<b>WWII Veterans RLF</b> AS 26.14.010 -.160 3 AAC 41.010 -.900 Enacted in 1946 Repealed in 1980	Personal loans up to \$10,000; multi family loans up to \$110,000; business loans up to \$125,000.	30 year maximum term  9.5% interest rate
<b>Water Resources RLF</b> Enacted in 1946 Repealed in 1980	Capital construction projects for hydroelectric generation and potable water supply.	No maximum amount  50 year maximum term  9.5% interest rate

**ALASKA DIVISION OF INVESTMENTS**  
**DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**  
**Commercial Fishing Revolving Loan Fund**  
**Historical Summary**  
(Dollars in Thousands)

AS 16.10.300 - .370; enacted in 1972

3 AAC 80.010 -.900

**Mission:** It is the policy of the state, under AS 16.10.300 - 16.10.370, to promote the rehabilitation of the state's fisheries, the development of a predominantly resident fishery, and the continued maintenance of commercial fishing gear and vessels throughout the state by means of long-term low interest loans.

**PURPOSE**

**ELIGIBILITY**

**SECTION A: \$300,000 Maximum**

Purchase limited entry permits; upgrade existing vessels to improve the quality of Alaska seafood.

**SECTION B: \$100,000 Maximum**

Purchase limited entry permits, vessels or gear; repair, restore or upgrade existing vessels or gear.

**SECTION C: \$300,000 Maximum**

Purchase quota shares for the halibut or sablefish fisheries.

**SECTION 10: Refinance**

Refinance existing CFRLF loans to allow borrowers to take advantage of lower interest rates when they occur.

**SECTION 11: Refinance up to \$300,000**

Refinance debts incurred by a borrower to purchase a commercial fishing vessel or gear.

**Alaska resident for the past two years and:**

ⓐ Active in fishery for 3 of the past 5 years, including the year prior to the date of application.

ⓑ No other occupational opportunities available in area of residence, or economically dependent on commercial fishing for a living.

ⓒ Intended for individuals that do not qualify for other sources of financing.

ⓓ Possesses a permit or crew license.

ⓔ Active participant in fishery for 2 of the last 5 years.

ⓕ Qualifies as a transferee for quota shares.

ⓖ Not eligible for financing from other commercial lenders.

ⓗ Loan must be in good standing.

ⓘ Qualifies for a loan under section A, B, or C.

**Interest rate:** Fixed rate at Prime +2%, not to exceed 10.5% (Product quality improvement is Prime -2%.)

**Maximum loan term:** 15 years

**Statistics as of June 30, 2002**

Total appropriations to RLF:	60,201.0	Last appropriation RLF: FY85	3,710.0
Total appropriations from RLF:	74,707.1		
Net of appropriations:	(14,506.1)		
Total number of loans committed:	5,762	Number of accounts outstanding:	2,697
Total dollars committed:	358,152.6	Principal amount outstanding:	92,565.6

**ALASKA DIVISION OF INVESTMENTS**  
**DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**  
**Fisheries Enhancement Revolving Loan Fund**  
**Historical Summary**  
(Dollars in Thousands)

AS 16.10.500 - .560; enacted in 1976

3 AAC 81.010 - .900

**Mission:** It is the policy of the state, under AS 16.10.500 - 16.10.560, to promote the enhancement of the state's fisheries by means of grants for organizational and planning purposes to regional associations described in AS 16.10.510 that have qualified under AS 16.10.380, and by means of long-term, low interest loans for hatchery planning, construction, and operation as well as planning and implementation of enhancement and rehabilitation activities including, but limited to, lake fertilization and habitat improvement.

**Purpose:** Loans are available for planning, construction, and operation of fish hatchery facilities, including pre-construction activities necessary to obtain a permit, construction activities to build the hatchery facility, and the costs to operate the facility.

**Eligibility:** Loans may be made to qualified regional associations or private, nonprofit corporations who have obtained a private, nonprofit hatchery permit from the Alaska Department of Fish and Game (ADF&G). Loans may also be made for planning and pre-construction purposes prior to receipt of a hatchery permit from ADF&G.

**Maximum loan amount:** \$10,000,000

**Maximum loan term:** 30 years

**Interest rate:** Fixed rate at prime +1%, not to exceed 9.5%

**Refinance:** Refinancing is available for existing Fisheries Enhancement Revolving Loan Fund Loans.

No repayment of the principal is required for an initial period of six to ten years; no interest on the principal accrues during that period.

**Statistics as of June 30, 2002**

Total appropriations to RLF:	84,660.3	Last appropriation from the General Fund: FY94	2,068.2
Total appropriations from RLF:	<u>(5,881.3)</u>		
Net of appropriations	78,779.0	Last transfer from the Commercial Fishing RLF: FY95	9,934.9
Total number of loans made: (Life of program)	272		
Total dollar amount of loans made: (Life of program)	115,637.5	Amount of payments received on all loans for life of program:	51,815.2
Number of accounts outstanding:	292		
Total outstanding balance:	103,719.8		

**ALASKA DIVISION OF INVESTMENTS**  
**DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**  
**Rural Development Initiative Fund**  
**Historical Summary**  
(Dollars in Thousands)

AS 44.88.600 - .620; enacted in 2000

AAC 99.825 - .899

**Background:** The Rural Development Initiative Fund (RDIF) was created in 2000 to provide financing to small businesses creating jobs in rural communities. The program was developed to replace a similar program administered for many years by the former Department of Community and Regional Affairs. The fund is owned by the Alaska Industrial Development and Export Authority (AIDEA); however, the program is administered by the Alaska Division of Investments (ADI) through a servicing contract. The fund is revolving and requires no general fund appropriations. A total of 89 jobs have been created or saved as a result of these loans.

**Purpose:** Financing is available for working capital, equipment, construction, or other commercial purposes.

- Eligibility:**
- ⊗ Loans may only be made to businesses located in a community with a population of 5,000 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks.
  - ⊗ Loans must result in the creation of new jobs, or the retention of existing jobs in the eligible community.
  - ⊗ A reasonable amount of non-state funding must be included as a part of the total project cost.

**Maximum loan amount:** One person: \$100,000  
Two or more persons: \$200,000

**Maximum loan term:** 25 years

**Interest rate:** Prime - 1%, not less than 6% per year

**Statistics as of June 30, 2002**

Total appropriations to RLF	2,250.5		
Total appropriations from RLF	(43.0)		
Net of appropriations to RLF	2,207.5		
Total number of loans committed:	14	Number of accounts outstanding:	14
Total dollars committed:	1,838.2	Principal amount outstanding:	1,374.4

**ALASKA DIVISION OF INVESTMENTS**  
**DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**  
**Small Business Economic Development Revolving Loan Fund**  
**Historical Summary**  
(Dollars in Thousands)

AS 44.88.400 - .430; enacted in 1987

3 AAC 99.800 - .820

**Background:** The Small Business Economic Development (SBED) was created in 1987 to finance the start-up and expansion of small businesses that create significant long-term employment in areas of the state that were experiencing economic difficulties. The fund was initially capitalized through a federal grant from the Economic Development Administration (EDA) as well as matching funds from the state. The fund is owned by the Alaska Industrial Development and Export Authority (AIDEA), however, the program is administered by the Alaska Division of Investments (ADI) through a servicing contract. The fund is revolving and requires no general fund appropriations. A total of 399 jobs have been created or saved as a result of these loans.

**Purpose:** To provide private sector employment, and financial assistance towards the start-up and expansion of businesses.

- Eligibility:**
- ⊗ The applicant must meet the definition of "small business" according to the Small Business Administration.
  - ⊗ The applicant must be unable to obtain private financing for the entire project; however, at least half of the project costs must be privately funded.
  - ⊗ Loan funds may not be used to reimburse costs incurred prior to submitting an application.

**Maximum loan amount:** \$300,000

**Maximum loan term:** 20 years

**Interest rate:** Prime -4%, not less than 4%

**Statistics as of June 30, 2002**

Total Federal grants to RLF	4,681.4		
Total State match to RLF	1,736.7		
Total appropriations from RLF	<u>0</u>		
Net of appropriations to RLF	6,418.1		
Total number of loans committed:	64	Number of accounts outstanding:	42
Total dollars committed:	5,948.0	Principal amount outstanding:	3,536.9

**ALASKA DIVISION OF INVESTMENTS**  
**DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**  
**Significant Issues for FY04**

**Salmon Industry**

The commercial fishing industry continues in flux as world markets adapt to the changing supply of fish from fish farms as well as the more traditional fishing fleets. The salmon markets have been significantly affected, and as a result they have been extremely volatile for the past several years. It is vitally important that Alaska maintains its place in the worldwide salmon market during these challenging times. Both the Commercial Fishing Revolving Loan Fund and the Fisheries Enhancement Revolving Loan Fund depend heavily on the fish runs and the profitability of the fishing industry. Reduced prices and lack of fish returns in some fisheries has resulted in significant difficulties for many of our borrowers. Fortunately, the statutes provide the flexibility needed to craft solutions to payment problems and the Division has dedicated significant resources in the past few years to these efforts. It is anticipated that similar efforts will continue in FY04.

**Salmon Industry Task Force Process**

The 22nd Alaska State Legislature convened a task force to address the crisis facing the salmon industry. Their goals are to evaluate the State's statutory framework for Alaska's wild salmon industry as well as current industry practices and to make recommendations for statutory, regulatory and structural changes that will improve the industry. The Division of Investments may play an important role in these restructuring efforts. The Division was selected as a Resource Agency for the Task Force Finance Subcommittee and has participated in their meetings in an advisory capacity. The Division's participation in this process and the implementation of the committee's final recommendations will be extremely important.

**Loan Servicing Software Replacement**

The software package currently being used by the Division was purchased in the early 1980's and has extremely limited capabilities. A replacement system is needed to provide loan origination functions such as application tracking, document creation and management. It is also needed to provide accurate and timely information to management, the legislature and the public. The 22nd Alaska State Legislature approved a \$550,000 capital request to replace this software and preliminary work, including a project plan, has been completed. The Division has begun the process of selecting the most appropriate package available and anticipates the purchase and installation to take place in FY04.

**ALASKA DIVISION OF INVESTMENTS**  
**DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**  
**Accomplishments in FY02/03**

**Refinancing - Commercial Fishing Revolving Loan Fund**

As 16.10.310(a)(10) allows commercial fishing borrowers to refinance existing Commercial Fishing Revolving Loan Fund loans to take advantage of reduced interest rates when they occur. The Division developed a streamlined application process and procedures to assist borrowers in their refinancing efforts. During the past fiscal year interest rates have declined dramatically and as a result the Division processed over 1,300 refinancing applications. The Division anticipates continued interest in the refinancing program for the remainder of FY03.

**Refinancing - Fisheries Enhancement Revolving Loan Fund**

Legislation was passed last session that allowed borrowers under the Fisheries Enhancement Revolving Loan Fund to refinance existing loans to take advantage of reduced interest rates. The Division developed a streamlined application process and procedures to assist borrowers in their refinancing efforts. During the past six months the Division processed 73 refinancing applications and anticipates a similar level of refinancing activity during the remainder of FY03.

**Volunteer Tax and Loan Program**

The Division supported the Volunteer Tax and Loan Program (VTLP) through a fisheries business development contract with the Alaska Business Development Center, Inc. (ABDC). This program involves a cooperative effort between the Division, the Alaska Business Development Center, the Internal Revenue Service and the University of Alaska. The program has been operating successfully since 1996 and the focus continues to be rural harvesting communities targeted by the IRS as having tax compliance issues. Teams comprised of advanced accounting students and tax supervisors, as well as an ABDC consultant traveled to each community to provide tax preparation, loan assistance, as well as, business and financial counseling. Twenty trips were made to assist 56 communities in seven Alaskan regions (Interior, Yukon Delta, Western, Southeast, Bristol Bay, Kodiak and Pribilof) during the months of February and March. Overall, ABDC's VTLP assisted 3,628 individuals and prepared 1,881 tax returns. A total of \$1,820,538 was refunded and put back into the communities.

The VTLP has received national recognition on two occasions. In August of 2001, the program was selected by the National Association of Development Organizations (NADO) to receive a 2001 Innovation award. In 1999, the program received an award for Innovative Approach to Non-Profit Management from the Peter F. Drucker Foundation located in New York.

**Outreach**

Division staff travel to communities around the state each year to distribute program information and help borrowers facing payment difficulties. The Division also participates in a variety of forums, conferences and fisheries related meetings each year.

**Telephone Payments**

Existing borrowers are now able to make loan payments over the telephone. This program was created to help borrowers avoid payment problems related to mail delays.

## Program Contact Information

### Alaska Division of Investments

#### Juneau Office

**Mailing Address:**

Alaska Division of Investments  
P.O. Box 34159  
Juneau, Alaska 99803

**Physical Address:**

Alaska Division of Investments  
3032 Vintage Blvd. Suite 100  
Juneau, Alaska 99801

**Office Telephone Numbers:**

Voice: 907.465.2510  
Fax: 907.465.2103

**Alaska Division of Investments Web site:****Alaska Division of Investments Toll Free Number:**

#### Alaska Business Development Center, Inc.

**Mailing/Physical Address:**

3335 Arctic Boulevard, Suite 203  
Anchorage, Alaska 99503

Web site: [www.abdc.org](http://www.abdc.org)

**Office Telephone Numbers:**

Voice: 907.562.0335  
Fax: 907.562.6988

Toll free number: 1.800.478.FISH (3474)

### Alaska Division of Investments

#### Anchorage Office

**Mailing Address:**

Alaska Division of Investments  
550 W. 7th Avenue, Suite 1650  
Anchorage, Alaska 99501-3568

**Physical Address:**

Alaska Division of Investments  
550 W. 7th Avenue, Suite 1650  
Anchorage, Alaska 99501-3568

**Office Telephone Numbers:**

Voice: 907.269.8150  
Fax: 907.269.8147

[www.dced.state.ak.us/investments](http://www.dced.state.ak.us/investments)  
[investments@dced.state.ak.us](mailto:investments@dced.state.ak.us)

1.800.478.LOAN (5626)

# Insurance Credit Scoring in Alaska



**FEBRUARY 21, 2003**

**FRANK H. MURKOWSKI  
GOVERNOR**

Edgar Blatchford  
Commissioner

Stan Ridgeway  
Acting Director

STATE OF ALASKA  
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

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Division of Insurance

## Introduction

In May 2002, at the request of Senator Kim Elton, then Director Bob Lohr agreed that the Division of Insurance (Division) would undertake a review of the insurance industry's use of a consumer's credit history for underwriting and rating personal lines insurance policies in Alaska.

This report is based on a survey the Division sent to all insurers writing homeowners or personal auto insurance in Alaska. The purpose of the survey was to give the Division a broad overview of how credit history impacts the Alaska market and to identify issues that would be reviewed more closely in market conduct examinations.<sup>1</sup>

## Summary of Conclusions

Based on the limited data received and evaluated so far, the use of insurance credit scoring in Alaska appears to have different effects on different groups of Alaskan insurance consumers. The survey data indicates that rural Alaska policyholders are more likely to be placed in the nonstandard markets than are urban policyholders. The survey data also suggests that there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard market with increasing age. A determination whether the policyholder distribution between preferred, standard and nonstandard markets is due primarily to credit history or other underwriting and rating factors is premature. However, the limited data do suggest that unequal effects exist on consumers with varying income and ethnic characteristics. In the aggregate, consumers that reside in higher income/high percentage Caucasian zip codes may be less impacted by the use of the consumer's credit history.

Since insurers have the burden of justifying that the use of credit history does not violate Alaska's laws, some restriction on the use of credit history would protect the public.

## What is insurance credit scoring?

An insurance credit score, sometimes referred to as a credit-based insurance score or insurance score, is a number developed from a mathematical algorithm or computer model based upon information taken from a consumer's credit report. This number is used by insurers to assist them in predicting a consumer's future loss potential.

An insurance credit score is calculated from a complex formula that uses information such as the number of bankruptcies, judgments or tax liens, the number of late payments, the number of accounts that are satisfactorily paid, the number of credit related inquiries, and the ratio of debt to account limits that appears on a consumer's credit report.

Insurance companies continually look for ways to reduce their expenses. One of the ways in which they do this is by reducing their exposure to risk. An insurer can reduce its exposure to risk by either not writing policies for consumers who present a high risk or by adequately pricing policies for the exposure level of the consumer. Insurers believe that using a consumer's credit history helps them more accurately evaluate risk and determine the right price for the consumer. This belief is based upon statistical analyses performed by insurers as well as by agencies that collect credit information. According to insurers, these statistical analyses show that there is a strong correlation between insurance risk and a consumer's credit-related behavior.

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<sup>1</sup> As part of its study, the Division is also conducting market conduct examinations of three insurance companies related to their use of credit scoring. These market conduct examinations are not yet complete. Because Alaska statutes provide procedures for the examinee to comment on the examination report before the director adopts it, results from the market conduct examinations are not included in this report.

## Issues of concern regarding credit scoring

Leading up to the Division's review of the use of credit scoring in Alaska, we heard concerns about credit scoring from consumers, insurance producers (agents and brokers) and the Legislature.

### *Consumer Issues*

Consumers have expressed concern over an insurer's use of credit history for the following reasons:

1. A cause-and-effect relationship between an individual's credit related behavior and propensity to file insurance claims has not been demonstrated.
2. Access to credit history is considered an invasion of privacy and providing unique identifying information, such as a social security number, potentially exposes the consumer to identity theft.
3. Credit reports may contain incorrect information.
4. Correcting erroneous credit reports can be a long process.
5. Individuals who have exceptional life circumstances that adversely impact their credit (identity theft, medical-related debts, etc.) are doubly penalized.
6. Consumers who do not use credit may pay more for insurance than if their credit history were not considered.
7. Lack of information on what constitutes good or bad credit characteristics and the complexity of the process for calculating an insurance credit score does not allow a consumer to know if he or she is being treated fairly.
8. Shopping around for insurance may cause the consumer's credit rating for lending purposes to be lower if the lender considers the number of inquiries in calculating a credit score.

### *Producer Issues*

Insurance producers have expressed concern over the use of credit history in rating and underwriting insurance policies for the following reasons:

1. Some insurers do not allow the producer to provide a premium quote if the consumer does not have a high enough insurance credit score.
2. Limited educational material is available to help the producer explain a very complex issue to a consumer.
3. Screening applicants for insurance coverage based upon credit history is just another means to redline<sup>2</sup> certain geographical areas or minority groups.
4. Asking for social security numbers and the inability to offer quotes without a credit check may erode the important relationship between a producer and the consumer.

### *Legislative Questions*

1. Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer's credit history or should the industry be required to also demonstrate causality?
2. Are victims of identity theft further victimized by credit scoring?
3. Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner's insurance coverage?
4. Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?
5. If consumers and regulators do not know the rules of the insurance credit scoring game, how can the interests of Alaskans be protected?

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<sup>2</sup> Redlining is a term used to mean that a particular group of consumers is experiencing difficulty in obtaining insurance coverage. The most restrictive use of the term means that there is literally a line drawn on a map around a particular geographic area in which an insurer does not want to offer coverage.

6. Are there Fair Credit Reporting Act conflicts?
7. When insurance companies outsource insurance credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?
8. Why is it that insurance producers split with insurance companies on the issue of credit scoring?
9. Can the Division of Insurance ban the use of credit scoring in establishing rates?
10. Can the director of the Division of Insurance use the Division's rulemaking authority to find that the use of credit history in the underwriting process is an unfair trade practice?

### Existing Regulatory Framework

#### *Rates and Rating Plans*

Alaska Statute (AS) 21.39 provides guidelines for acceptable rates and rating plans used in Alaska. AS 21.39.030 requires that a rate not be excessive, inadequate or unfairly discriminatory. AS 21.39.030 also requires that in making rates, insurers consider past and prospective loss experience, reasonable underwriting profit and expenses. If risk classifications are used, the insurer must demonstrate that the standards used for measuring differences in hazards or expenses have a probable effect on losses or expenses.

AS 21.39.040 requires every insurer to file with the director every rate, rating plan, rating schedule and rating rule that the insurer proposes to use. Each filing must include support for the proposed rates and rating plans to demonstrate that the filing meets the standards in AS 21.39.030. The director has authority to request additional information from the insurer to assist the director in determining if the filing meets these standards. The director may disapprove a filing unless it demonstrates that the proposed rates or rating plan are not excessive, inadequate or unfairly discriminatory. A filing and all supporting information is open to public inspection after the filing becomes effective.

AS 21.36, the trade practices chapter also would apply to rating plans and, in particular, prohibits unfair discrimination. Under AS 21.36.090(c):

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in the selection of it, or in any other terms and conditions of the insurance.

Beginning in 2002, the Division asked insurers who submit personal lines rate filings that include the use of credit history in their rating plans to comply with certain new minimum standards.<sup>3</sup> These minimum standards were developed from testimony provided to the legislature during the 2002 legislative session. These minimum standards are:

1. An insurer should not impose a surcharge based on the absence of credit history or inability to determine the consumer's credit history.
2. An insurer should not use the number of inquiries, medical information, particular type of credit card, or total line of credit in determining a consumer's credit score.
3. If a policy is rated using disputed credit history, the insurer should re-rate the policy retroactive to the effective date of the policy if the consumer resolves the dispute under the Fair Credit Reporting Act process and notifies the insurer that the dispute has been resolved.

Two insurers revised their previously approved auto rating plans to comply with these minimum standards. One filing from a third insurer is under review by the Division at this time.

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<sup>3</sup> The Division also recommends similar minimum standards with respect to underwriting.

AS 21.39.090 requires that every insurer, upon written request by the insured, shall furnish to an insured all pertinent information concerning a rate. Each insurer must also provide a means for a person aggrieved by the application of the rating system an opportunity to be heard. The purpose of the hearing would be to review the manner in which the rating system has been applied to the aggrieved person. Under this provision, insureds have a right to know the insurer's standards for calculating rates. An insurer that elects to use credit history in calculating a consumer's insurance rate or premium needs to provide adequate information to the insured showing how that rate is calculated.

### *Underwriting*

Underwriting is the process by which an insurer decides whether or not an applicant for insurance coverage will be issued an insurance policy. Each insurer may develop its own underwriting criteria for the type of risk the insurer wants to write. For example, an insurer may decide that it will not offer personal auto coverage for consumers who drive imported sports cars. This is an underwriting decision. Another insurer may decide that it will write consumers who drive imported sports cars, but will do so by charging these consumers higher rates. The decision to provide coverage for foreign sports cars is an underwriting decision. Charging the consumer a higher rate, and determining how much the surcharge will be, is a rating decision.

In some cases there is an overlap between underwriting and rating. This may occur when an insurer uses insurance credit scoring, as well as other more traditional underwriting and rating factors, as part of the process for determining the placement of the consumer into one of several companies owned by one insurer, insurer group, or an insurance holding company. An insurer may consider this an underwriting process primarily because the insurer is using the insurance credit score as an underwriting criterion that determines the company for which the consumer is qualified. However, if each company has also filed distinct rates for the risks covered by that company, the underwriting decision also becomes a rating decision.

For purposes of this report, underwriting includes the criteria an insurer uses to place an applicant in one of multiple affiliated insurers. Insurers are not required to file underwriting guidelines with the Division before the guidelines are used. However, the Division does have authority to regulate underwriting guidelines under AS 21.36.090(c). As noted above, this section states:

A person may not make or permit arbitrary or unfair discrimination between insureds or property having like insuring or risk characteristics, in the premium or rates charged for a policy or contract of property, casualty, surety, marine, wet marine or transportation insurance, or in the dividends or other benefits payable on the insurance, or in the selection of it, or in any other terms and conditions of the insurance. (emphasis added)

An underwriting guideline that is unfairly discriminatory would be regulated as an unfair trade practice. If the underwriting guideline were determined to violate Alaska laws, the Division would take administrative action to stop the practice. This procedure is in contrast to the rate filing procedures that require the Division's approval before the insurer can use a rate or rating plan.

### *Confidentiality Issues*

Because insurers and third party vendors invest significant amounts of time and money to develop insurance credit scoring models, many insurers and third party vendors assert proprietary trade secret status for these models. Under Alaska's rating laws, information used by an insurer, as support for its rating plan becomes public information when the filing becomes effective. Several rate filings submitted to the Division were disapproved when the insurer did not provide adequate support for the model because they, or the third party vendor, did not want the model to become public.<sup>4</sup>

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<sup>4</sup> Insurers and third party vendors have generally expressed a willingness to allow insurance regulators access to their models, provided the regulators do not disclose the models to the public.

Unless the scoring models are open to scrutiny, only the insurers or the third party vendors who have developed the models, and have a vested interest in seeing that insurance credit scoring is used, will be able to know and analyze how the models are developed and how they impact the insurance buying public. There will be no studies of these models to independently validate the conclusions put forth by insurers and the credit industry. For a practice that raises so many concerns, independent validation of the models may be essential.

### **History of Insurance Credit Scoring in Alaska**

The first rate filing proposing to use insurance credit scoring as a rating factor was submitted to the Division in May 1997 and approved by the Division to take effect in September 1998. A significant amount of correspondence between the Division and the insurer occurred before the filing was approved. Six additional insurer groups began using insurance credit scoring as a rating factor in 1999 and 2000. The Division has disapproved five filings proposing to use insurance credit scores for personal auto and three for homeowners because the insurers were unable or unwilling to provide adequate justification to support the use of credit history.

The use of credit history in underwriting has had a longer history in Alaska. Seven insurer groups use credit history in underwriting. One insurer group began using credit history in 1989 while others began using it between 1994 and 2001.

### **Summary of Credit Scoring Survey**

The test of whether the use of credit history in insurance underwriting and rating complies with Alaska's insurance laws lies only partially in the theoretical support for how credit history correlates with loss history provided in rate filings. After a rating plan is in use, the actual market results must also demonstrate that the rating plan performs generally as predicted. With Alaska's unique population characteristics, genuine questions and concerns exist about the impact of credit history on Alaska's insurance buying public.

To help the Division assess this impact, all insurers that wrote either personal auto or homeowners business in Alaska during 2000 and 2001 were asked to complete a survey describing the insurer's use of credit history. In the survey, the Division told insurers that individual company data would be treated in accordance with the confidentiality standards in AS 21.06.060. However, insurers were also notified that the information obtained in the survey would be used to present a report to the legislature and aggregate data that do not identify individual company practices would be included in the report. Any information provided in the survey that is also publicly available in approved rate filings would remain public.

The insurers were asked to provide data related to zip codes, age, marital status, sex and market or tier. The analysis of the survey data is limited because the survey did not ask for individual policyholder data nor did it ask for demographics such as income or race, because insurers do not collect this information.

Because income and race data are not available, the Division used census data by zip code<sup>5</sup> to identify both urban and rural zip codes with high and low median household income and various ethnic compositions to be used as a proxy for income and ethnicity of the policyholders. Data from all insurers writing business in a particular zip code were combined, whether the insurer uses credit history as an underwriting tool or as a rating factor so that an individual insurer's policyholder distribution cannot be determined from the data provided in this report.

Another proxy was needed for a consumer's credit history since the data received in the survey did not include individual policyholder data. Each insurer has its own unique way of using credit history

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<sup>5</sup> The census data were taken from <http://www.ehomes.com/ehome/buyers/neighborhoodprofile.asp?from=buyer>

in its rating plan or underwriting criteria; different insurers use different insurance credit scoring models and different insurers use different underwriting criteria to classify the risk level of their policyholders. In order to find a common theme that could be used to aggregate the survey data, and provide the necessary proxy for credit history, the Division focused on three broad categories of risk: preferred business, standard business and nonstandard business. Preferred business consists of those consumers that are seen to present the least risk to an insurer. Standard business is the average risk, and nonstandard business consists of those consumers the insurer believes have the highest level of risk.

The preferred business category would generally include policyholders with good credit history, standard business would generally include policyholders with average credit history and nonstandard business would generally include policyholders with poor credit history. The survey data were split among these categories based upon each insurer's own characterization of the type of business the insurer writes.

Because a consumer may be placed in a market based on the consumer's credit history in combination with other underwriting or rating factors, the categorization of preferred, standard or nonstandard market is only a rough approximation for credit history. For example, a consumer may be in the nonstandard market for reasons other than the consumer's credit history, while, generally, it would require good credit history for a consumer to be in the preferred market.

The survey asked for data for all years in which an insurer used credit history in rating or underwriting. The distributions by year for each insurer were very similar. For sake of efficiency, only personal auto data for 2001 is included in this report. This also allows the most companies to be included and minimizes the possibility of identifying individual company data.

#### *Anchorage*

Table I contains policyholder distributions for Anchorage. Some of the Anchorage zip codes had similar median household income and ethnic composition. Those zip codes with similar demographic characteristics were combined together to add credibility to some of the zip codes in which there were only a few policies. Two of the Anchorage zip codes, 99504 and 99516, had demographics that differed from the other zip codes, so these zip codes were not combined with any other zip code.

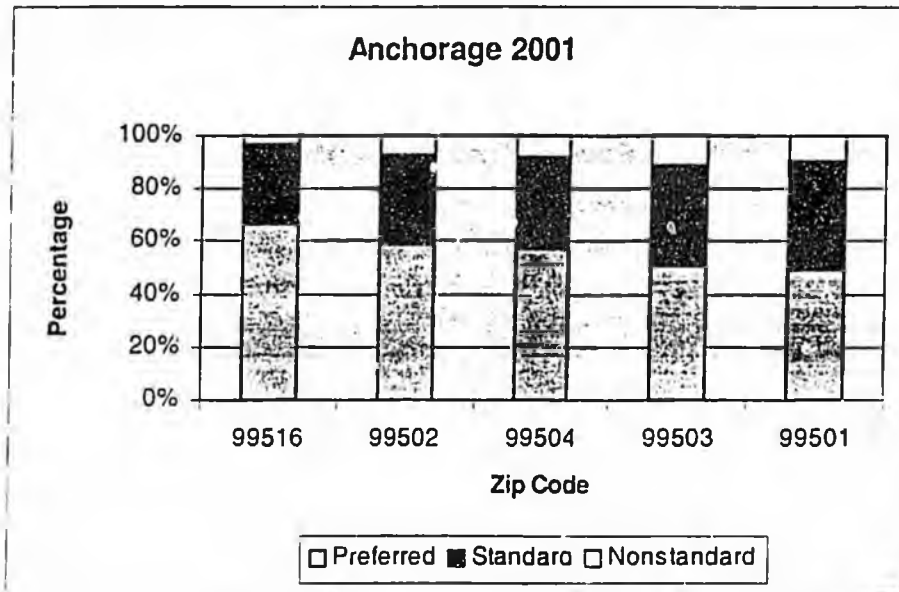
- Zip code Group A consists of zip codes 99501, 99509, 99510, 99511, 99512, 99513, 99514, 99520, 99521, 99522, 99523 and 99524.
- Zip code Group B consists of zip codes 99502, 99507, 99515 and 99518.
- Zip code Group C consists of zip codes 99503 and 99508.

The data in Table I indicates that the zip code that is predominantly Caucasian and has the highest income also has the highest percentage of preferred policyholders and the lowest percentage of nonstandard business. The zip code groups with the lowest median household income and largest ethnic population have the smallest percentages of preferred policyholders and the largest percentages of nonstandard business.

**TABLE I**

<b>Zip Code</b>	<b>Median Income</b>	<b>% Caucasian</b>	<b>Preferred</b>	<b>Standard</b>	<b>Nonstandard</b>
99516	\$101,571	93%	67%	30%	3%
Group B	\$61,743 - \$69,275	83%-86%	59%	34%	7%
99504	\$55,095	80%	57%	35%	8%
Group C	\$41,048 - \$44,082	75%	51%	38%	11%
Group A	\$39,850	73%	50%	41%	10%

Figure I



*Fairbanks*

Table II contains data from Fairbanks. Except for Fairbanks zip code 99712, the zip codes are aggregated in a manner similar to that of the Anchorage zip codes.

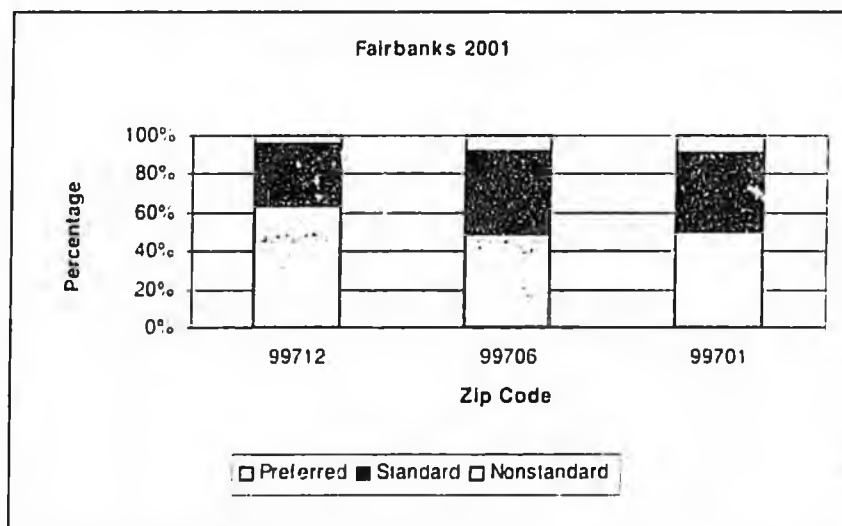
- Zip code Group D consists of zip codes 99706, 99707, 99708, 99709 and 99710.
- Zip code Group E consists of zip codes 99701 and 99711.

TABLE II

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	63%	32%	4%
Group D	\$53,550	85%	49%	43%	8%
Group E	\$40,234	76%	50%	41%	9%

Fairbanks shows a similar distribution to that of Anchorage. The zip codes with higher income and a larger percentage Caucasian population have more preferred policyholders and fewer nonstandard policyholders than the remaining zip codes.

Figure II



*Rural Alaska*

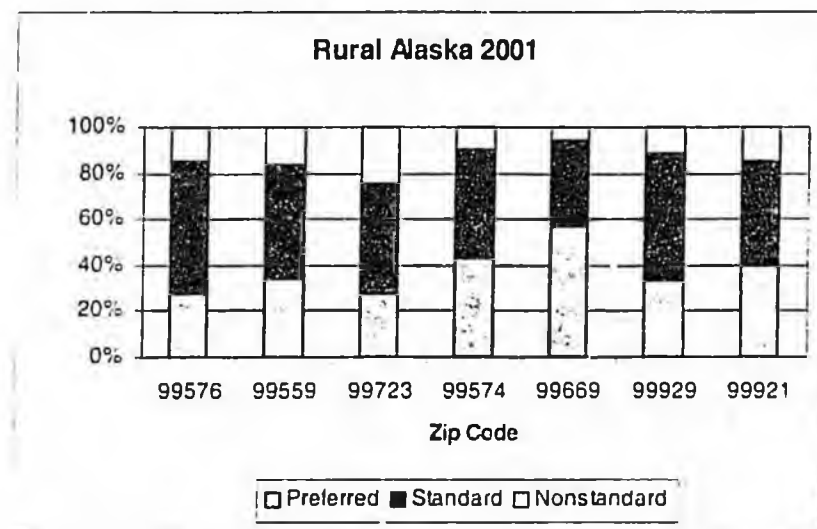
Table III contains data from rural Alaska. The policyholder distributions for rural Alaska are represented by some of the larger communities in various locations around the state: Dillingham (99576), Bethel (99559), Barrow(99723), Cordova (99574), Soldotna (99669), Wrangell (99929) and Craig (99921).

**TABLE III**

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	28%	57%	15%
99559	\$51,119	32%	34%	49%	16%
99723	\$80,257	31%	28%	48%	24%
99574	\$72,711	84%	43%	47%	10%
99669	\$57,981	94%	57%	37%	6%
99929	\$51,879	80%	33%	56%	11%
99921	\$53,766	76%	40%	46%	15%

With the exception of Soldotna, rural Alaska generally has higher percentages of nonstandard business and lower percentages of preferred business than either Fairbanks or Anchorage.

**Figure III**



For comparison purposes to see how the use of credit history may have impacted the overall Alaska market, the survey also asked for the policyholder distribution for the year prior to the first use of credit history in either rating or underwriting. Because this is a different year for each insurer, the data in the following tables is from various years between 1996 and 1999 depending on the year in which the insurer first used credit history. The reason for combining different years is to minimize the possibility of identifying individual insurer experience.

The insurers included in Tables IV – VI below are somewhat different from the insurers included in TABLES I – III above. Different groups of insurers are combined because some insurers did not include data from the earlier years in the survey. Any attempt to compare the distributions in Tables I – III with Tables IV – VI must be done with great caution as they do not include the same insurers or the same policyholders. In addition, other rating and underwriting factors have not remained static over the years. Therefore, the criteria used to determine if a consumer qualifies as preferred, standard or nonstandard business varies over the time period from 1996 – 2001 and are not restricted just to the implementation of credit history as a rating or underwriting factor.

*Anchorage Prior to Use of Credit History*

**TABLE IV**

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99516	\$101,571	93%	65%	30%	5%
Group B	\$61,743 - \$69,275	83%-86%	55%	34%	11%
99504	\$55,095	80%	53%	35%	13%
Group C	\$41,048 - \$44,082	75%	49%	34%	17%
Group A	\$39,850	73%	47%	37%	16%

As is the case with the 2001 data, there is more nonstandard business and less preferred business in the lower income/ higher ethnic population zip codes. These zip codes also see a shift in the distribution of preferred and nonstandard business before and after insurers began using credit history, with a similar but smaller shift of business between markets in the highest income predominantly Caucasian zip code. Because of the limitations of the data supplied in the survey, no conclusion can be drawn to definitively conclude that the use of credit history is the reason that fewer policyholders are classified as nonstandard business in 2001 than before these insurers began using credit history.

*Fairbanks Prior to Use of Credit History*

**TABLE V**

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99712	\$62,613	93%	58%	35%	7%
Group D	\$53,550	86%	44%	45%	11%
Group E	\$40,234	76%	46%	40%	14%

The Fairbanks data shows results similar to that of the Anchorage data. Even before insurers began using credit history for rating or underwriting policyholders, the higher income predominantly Caucasian zip codes have higher percentages of preferred business than the lower income zip codes while the lower income/higher percentage ethnic zip codes tend to have more nonstandard business than the higher income zip codes.

*Rural Alaska Prior to Use of Credit History*

**TABLE VI**

Zip Code	Median Income	% Caucasian	Preferred	Standard	Nonstandard
99576	\$53,484	37%	19%	58%	22%
99559	\$51,119	32%	19%	52%	29%
99723	\$80,257	31%	17%	48%	35%
99574	\$72,711	84%	20%	55%	24%
99669	\$57,981	94%	48%	39%	13%
99929	\$51,879	80%	12%	70%	18%
99921	\$53,766	76%	19%	44%	36%

In spite of the fact that the aggregate data in Tables I - III is not entirely comparable with the aggregate data in Tables IV - VI, there are similarities in the risk distribution for the year prior to the implementation of the use of credit history (Tables IV - VI) with the 2001 distributions (Tables I - III). In general, higher income/lower minority zip codes have more preferred business than lower income/ higher minority zip codes, while lower income/higher minority zip codes tend to have more nonstandard policyholders. However, there are also differences in the distributions

shown in Tables I – III and Tables IV - VI. The largest difference is in the nonstandard market where a smaller percentage of business is classified as nonstandard in 2001. The question that cannot be answered from the survey data is the extent to which the smaller percentage of policyholders that are classified as nonstandard business in 2001 than before the use of credit history is due to the use of credit history or to other factors.

This data does not conclusively demonstrate that using a consumer's credit history allows more individuals to be classified as preferred or standard. The data does appear to indicate that the use of a consumer's credit history is causing some shifts in market distribution between preferred, standard and nonstandard business.

Whether these results are due entirely to the use of credit history or some other underwriting/rating factor cannot be determined from the data received from this survey. Some additional factors that may be contributing to this shift in market distribution are:

- 1) All of these insurers varied their other underwriting and rating criteria between the time they first started using credit and 2001. Therefore, the distributions may well reflect other changes in the insurers operations in addition to credit history.
- 2) The data in the tables above does not account for the possibility that some consumers may not have received an offer of coverage, at least in part because of the consumer's credit history. These consumers may either be leaving the voluntary market to obtain coverage in the assigned risk plan,<sup>6</sup> moving to the few remaining insurers that do not use credit history or going without insurance.
- 3) The data in Tables I – III is from a different group of insurers than the data in Tables IV – VI.

Insurers have stated that when they use credit history they are able to write more business and renew policies that they might otherwise non-renew. To test this claim, the change in the number of policyholders written between 1999 and 2001 by insurers that use credit history was calculated from information provided in the survey. In the aggregate, for those insurers whose data is included in the tables above, the number of policyholders increased by approximately 8% from 1999 to 2001. However, several of the insurers are writing less business in 2001 than they did in 1999. Individual company results ranged from a decrease of 20% to an increase of 67% in the amount of business written over this time period.

Additional study with more detailed data would be needed to draw more definitive conclusions. Because the apparent redistribution of policyholders between preferred, standard and nonstandard markets occurs during a time period in which insurers are using credit history, the changes in classification of business between preferred, standard and nonstandard business may be due, at least in part, to the use of credit history. However, the data collected in the survey is not adequate to clearly determine the extent to which these changes are the result of the use of credit history.

To evaluate the effect of the uses of credit history on age, the survey data was again aggregated into three groups of preferred, standard and nonstandard business. The 2001 distribution of policyholders by age and risk characteristics, as demonstrated by preferred, standard or nonstandard classification is shown in Table VII. This data indicates that older consumers are overall less likely to be placed in a nonstandard market than the youngest consumers. However, there is a trend for older consumers to move from the preferred market to the standard market and even nonstandard with increasing age. Whether this trend is due to the individual's credit history or other rating factors cannot be determined from the data available in the survey.

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<sup>6</sup> The personal auto assigned risk pool has been growing annually since 1999 when there were 651 new applicants to the pool. In 2002, the pool received 1,159 new applications.

TABLE VII

Age Group	Preferred	Standard	Nonstandard
15-20	4%	39%	57%
21-30	15%	57%	29%
31-40	33%	53%	14%
41-50	43%	48%	9%
51-60	43%	50%	7%
61-70	52%	44%	4%
71-80	38%	57%	5%
81-90	15%	75%	6%
91-100	6%	77%	17%

The survey data did not categorize marital status other than by married or single, so the Division was unable to evaluate the effect that unfavorable credit history resulting from a divorce might have on underwriting or rating of an insurance policy.

A narrative summary of the responses to the survey is attached as Appendix A.

Appendix B contains a more detailed summary of insurer responses to specific questions. Each question is followed by a summary of the responses to that question. Survey questions that required the insurer to include an attachment or to include policyholder distributions are left blank in Appendix B.

### Recommendations and Conclusions

#### Recommendations

1. *Is correlation between credit history and loss potential sufficient support for the industry to be able to use a consumer's credit history or should the industry be required to also demonstrate causality?*

Correlation alone may not be sufficient support for use of insurance credit scoring with respect to an insurer's underwriting and rating practices. This is why with respect to rate filings the Division has required insurers to establish more than a simple statistical correlation. In addition to being required to show a strong statistical correlation, insurers have been required to show fairness and reasonableness in the underlying assumptions and the methodology for determining a consumer's insurance credit score. The Division also reviews the manner in which the insurance credit score is used in the overall rating plan to evaluate possible unfairly discriminatory impacts. Insurers have been asked to justify that their use of a consumer's credit history does not unfairly discriminate among urban vs. rural insureds or by age. Further, insurers must show that any differences among risks (such as insureds with different insurance credit scores) can be demonstrated to have a probable effect upon losses or expenses. AS 21.30.030(4).

"Causality" might be an appropriate standard depending on how that term is applied. Under the American Academy of Actuaries (Academy) Actuarial Standard of Practice "Concerning Risk Classification,"<sup>7</sup> if "causality" means establishing a "cause-and-effect" relationship between a risk classification (in this case, a classification based on an insurance credit score) and loss, it should not be made a requirement for a risk classification system because "cause-and-effect" is often impossible or impractical to prove statistically. According to the Academy, "causality" is appropriate when it is applied in a less rigorous sense, such as when an insurer is required to establish a plausible or reasonable relationship between characteristics of a classification and loss. In this regard, risk characteristics should be neither obscure nor irrelevant to the protection provided.

<sup>7</sup> American Academy of Actuaries, Actuarial Standards Board, Actuarial Standard of Practice No. 12 "Concerning Risk Classification", October 12, 1989.

“Causality” also has been described as “the actual or implied behavioral relationship between a particular rating factor or loss potential.” National Association of Insurance Commissioners (NAIC), *Report of the Rates and Rating Procedures Task Force of the Automobile Insurance Subcommittee, November, 1978* at 5-6, as quoted in *Hartford Accident and Indemnity Co. v. Insurance Commissioner*, 482 A.2d 542, 584 (Pa. 1984). As exemplified in the NAIC report, “the longer a vehicle is on the road, for example, the more likely it is that the vehicle may be involved in a random traffic accident; thus, daily and annual total mileage may be viewed a causal rating factor.”

The use of credit history for underwriting and rating insurance policies is controversial, in part, because studies that show a strong correlation between credit history and loss experience do not also establish a cause-and-effect relationship.<sup>8</sup> To require insurers to meet the rigorous definition of causality, that there is a clear and direct cause-and-effect relationship between a person's credit history and insurance loss experience would be difficult, if not impossible, to meet. Thus, requiring a rigorous definition for causality could be tantamount to banning outright the use of credit history for underwriting and rating purposes.

2. *Are victims of identity theft further victimized by credit scoring?*

If the identity theft results in the consumer receiving a less favorable insurance credit score than the consumer would have received without the identity theft, and this results in higher insurance premiums, then the consumer is further victimized by the use of insurance credit scoring. A solution would be to prohibit the insurer from using any disputed credit history that results from the identity theft and rerating or reunderwriting all policies that may have used the incorrect information.

3. *Does it make sense for a consumer to be able to qualify for a home loan but not be able to qualify for homeowner's insurance coverage?*

It seems counterintuitive that a consumer could qualify for a home loan but not qualify for homeowners insurance coverage when the reason for the denial is based upon the consumer's credit history. The difficulty is that financial institutions and insurers use different models to calculate a consumer's credit score because they want to measure different characteristics of the consumer. Financial institutions want to know if the consumer will pay back the loan. Insurers want to know if the consumer will file a claim. Although each model relies on the consumer's credit history, the algorithms are not the same. Still, it does appear anomalous. This anomaly could be addressed by prohibiting an insurer from basing an underwriting decision on credit information.

4. *Why do otherwise similarly situated consumers sometimes pay dramatically different premiums?*

One of Alaska's rating standards requires that rates not be unfairly discriminatory. Therefore, otherwise similarly situated consumers that obtain insurance from the same company should pay the same premium. However, Alaska law does not require that all insurers charge the same rates. An insurer may choose to offer coverage to different segments of the market. Insurers that write nonstandard business will generally have higher rates than insurers that write preferred business.

For insurers that use insurance credit scoring, rates may differ among companies because insurers use different insurance credit scoring models. In addition, each insurer incorporates the insurance credit score in different ways in their underwriting criteria or rating plans, thus

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<sup>8</sup> American Academy of Actuaries Risk Classification Subcommittee of the Property/Casualty Products, Pricing, and Market Committee November 15, 2002 report on “The Use of Credit History For Personal Lines of Insurance: Report to the National Association of Insurance Commissioners” p. 6, 13 and 18

resulting in different premiums. Even though most insurers use credit history in conjunction with other underwriting and rating factors, the degree to which the final premium is dependent upon the consumer's credit history varies from consumer to consumer and from insurer to insurer. For a consumer who meets all other underwriting criteria for placement in the preferred tier or company except for the credit history requirement, the consumer's credit history may have significant weight for that particular consumer, depending on the insurer. For some consumers, their credit history may be the only factor that prevents them from receiving the best rate. Simply because an insurer uses underwriting factors in addition to the consumer's credit history does not mean that all factors carry the same weight in determining the final premium.

5. *If consumers and regulators do not know the rules of the credit scoring game, how can the interests of Alaskans be protected?*

If consumers do not understand how insurance credit scoring works or understand their rights, then they will not know how to determine if they are being treated fairly.

Many insurers provide educational material to their producers and the insurance buying public. However, 36% of the insurers responding to the survey do not have educational material, 52% do not explain the difference between an insurance credit score and a credit report, and 29% do not tell the consumer what attributes of his or her credit history contributes to an adverse action. An informed insurance buying public is better able to protect its interest. Insurers can assist by doing a better job of making the insurance credit scoring process more transparent to the insurance buying public. This would include making available materials that describe what criteria from the credit report are used in calculating an insurance credit score, explaining what types of behavior improve an insurance credit score and the types of behavior that negatively impact the insurance credit score. This information needs to be specific and based upon the credit history that served as the basis for the adverse action so that the consumer can apply it to his or her own situation.

The Division strives to protect Alaska's consumers by reviewing and analyzing the insurance credit scoring models used by insurers that propose to use insurance credit scoring in their rating plans. Some insurers have not provided this information to the Division because the developers of the insurance credit scoring models, insurers or third party vendors, do not want their models to become public information. They argue that being forced to disclose their models is a violation of their intellectual property or trade secret rights. Insurers that have not provided this information have had their filings disapproved. Making the insurance credit scoring models confidential would continue to allow the Division to review the models but it would limit the ability of consumers to get the same information to understand how their rates are determined and to know that they are being treated fairly. Requiring minimum standards for the models is a way to help protect the interests of Alaskan consumers.

Inaccurate credit history may result in an insurer assigning a higher rate to a consumer than would otherwise apply had the correct information been used. Inaccurate credit history may be due to the presence of inaccurate information as well as the absence of accurate information. Because correcting inaccurate credit history may sometimes take an extended period of time, one possible remedy for quickly reversing adverse actions would be for insurers to use credit history from all three of the major credit bureaus when the adverse action is the result of a disputed credit history. If there is a discrepancy between the credit history on file with the different credit bureaus, the credit history should not be used until the differences are reconciled. This would help to ensure that accurate information is used since information available from one credit bureau may differ from that at another credit bureau.

6. *Are there Fair Credit Reporting Act conflicts?*

The Fair Credit Reporting Act does not require insurers to get a consumer's permission to look at his or her credit history, but it does require insurers to notify consumers when adverse action is taken against the consumer and this action is based upon the consumer's credit history. Some insurers may not be providing adequate notice to consumers when adverse action is taken due to the consumer's credit history.

A representative from the Federal Trade Commission (FTC) addressed the Winter 2002 National Association of Insurance Commissioners meeting. He said the FTC took a very broad view of the definition of adverse action. Adverse action would include any action that results in a higher charge or less coverage to the consumer than if the credit history had been more favorable.<sup>9</sup> Simply because an insurer says they are giving a discount to an insured based upon the insured's credit history does not mean the insurer is not taking adverse action against the consumer. In other words, if that discount does not result in the consumer receiving the best possible rate available from the insurer, but only an intermediate rate, the insurer may still be taking adverse action if the consumer would have received the best discount had the consumer's credit history been more favorable.

7. *When insurance companies outsource credit scoring are they able to adequately oversee the practice so that consumer interests are not at risk?*

Whether an insurer uses the services of a third party vendor or develops its own insurance credit scoring model, the insurer is ultimately responsible for the underwriting and rating systems that it uses. An insurer who uses a third party vendor may not rely upon the third party to ensure that the model meets the standards set out in Alaska law. When a consumer disputes credit history used by an insurer, the insurer sends the consumer to the credit reporting agency to resolve the dispute. This may be inconsistent with AS 21.39.090 that requires each insurer to provide a means for the consumer to be heard on the manner in which the rating system has been applied. One possible way in which the insurer can exercise more control over the practice would be to not include the use of disputed information, when the consumer can demonstrate that incorrect information has been used, and not wait until the incorrect information has been corrected by the credit bureau.

8. *Why is it that insurance producers split with insurance companies on the issue of credit scoring?*

Not all producers agree on the use of credit history, either among themselves or with the insurers that they represent. Insurance producers are on the front line with consumers. They are placed in a position of having to explain a very difficult, controversial subject about which they may have minimal understanding or information to share with their client. As an example, it is the producer that must explain to a consumer with clean loss history that he or she cannot get the best available rate because of the consumer's unfavorable credit history.

At the same time, because the use of credit history is such a wide spread practice, some producers, particularly those who may only be able to offer coverage with one or two insurers, have concerns about the availability of these markets if limitations are placed on how an insurer can rate a policy.

9. *Can the Division of Insurance ban the use of credit scoring in establishing rates?*

The Division can ban the use of credit scoring in establishing rates if it is found to result in rates that are inadequate, excessive or unfairly discriminatory. For insurance credit scoring, the most critical issue is does it result in rates that are unfairly discriminatory. None of the models the Division has reviewed include income, location, race, religion or disability to calculate an insurance credit score.

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<sup>9</sup> Federal Trade Commission Stires-Ball staff opinion letter, March 1, 2000.