

ALASKA - A GOOD CREDIT RISK

Speech By Governor Walter J. Hickel

Before the Anchorage

Chamber of Commerce July 19, 1967

"I am happy to be here today to talk about Alaska, its resources, industry and economic development.

"First of all, I wish to extend my personal welcome on behalf of all of the people of the State to you gentlemen who have traveled here to be with us today. With travel today made easier and more comfortable aboard swift moving jet aircraft, the impact of the size of Alaska upon the visitor is sometimes largely diminished.

"To get you into proper perspective—even those of you who may be from Texas—I will seek to impress you with the size of our state of Alaska by pointing out that if Alaska were superimposed on the United States it would stretch from Canada to Mexico and from the Atlantic to the Pacific. It has four time zones, just like the continental United States does.

"When people ask me what the weather in Alaska is like, or what time it is, I answer by saying: 'What is the weather like in the United States?—and what is the time in the United States? It just depends on what part you are talking about.'

"Alaska is big! Its 34,000 mile coastline is longer than that of the rest of the 49 States put together, and the continental shelf extending offshore is larger than the State's land area. In fact, it constitutes 64 percent of the total continental shelf area of the entire Nation. More importantly, both the land and continental shelf of Alaska are treasure chests brimming with natural riches waiting for development.

"A few weeks ago I made a trip to New York to talk to people such as you about Alaska. Alaska, I said, is a slumbering giant that is just waking up, and we have progress in our blood. We are not going to be content any more with the status quo, with just letting things happen.

"We have found that great cities and countries are built by men who wait. One of our first steps in our program to make things happen was to create a healthy investment climate to encourage anyone who wants to help us develop.

"In our Affairs of the State Address, we asked for legislation that would increase Alaska's ability to attract industry, and I signed into law measures to enable our cities and boroughs to issue revenue bonds to finance buildings and plants to lease to industry. This made low-interest, 30-year financing available to industries seeking to build in Alaska. Along this same vein, I might point out that there has not been a general state tax increase, nor any new general tax levies, since 1962, and none is contemplated at this time.

"As I have stated many times, the single most important function of the Governor's office is economic development. It is through jobs, payrolls, and productive employment that many of our social and political ills can be cured. Human dignity demands that individuals must have the self respect that goes with productive employment.

"The Alaskan economy is based primarily on the abundance of the natural resources of our great land and of our even greater continental shelf. These are our fisheries, forest products and minerals, including oil and gas. Another industry of growing importance is recreation.

"Historically, fishing has been our principal resource industry and will continue to be important, but it may be surpassed in the near future by minerals because of the rapid development of the State's oil and gas fields. This industry has risen to second place since 1957 and most of the major oil companies of the United States and several foreign companies are participating in its development.

"Forest products and recreation rank third and fourth. Although the Alaskan industrial developments have been basically in primary and extractive stages, manufacturing in the intermediate stage has commenced with the establishment of petrochemical industries.

"There is a continuing favorable trend and growth in economic activity in Alaska. Gross volume of business jumped from one billion 67 million dollars in 1964 to one billion 210 million dollars in 1965, and again jumped in 1966 to one billion 429 million dollars.

"Banking statistics show that at the end of 1959 loans and discounts totaled about \$86 million and by the end of 1966 totaled \$216 million.

"Demand and savings deposits totaled \$184 million at the end of 1966 had more than doubled to \$383 million.

"The value of resource production soared from \$218 million in 1961 to \$339 million in 1966. Total personal income, which amounted to \$322 million in 1950, rose to \$854 million in 1965.

"Indicators used to measure economic activity all reflect growth and progress. Let's look at our individual industries.

"Fisheries are Alaska's biggest industry today. More than 17,000 commercial fishermen and 8,811 commercial fishing vessels are licensed in Alaska. One hundred and thirty companies own 208 processing plants. The Alaska catch of fish in 1966 exceeded that of any other State with a wholesale value of \$174 million. The third most important fishery

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port in the Nation is Kodiak, Alaska, with Boston running fourth; yet the actual potential afforded by the fishing banks off the coast of Alaska is virtually untapped.

"By comparison, the rest of the United States is bounded by two oceans and one sea. Alaska is bounded by two oceans and three seas. This vast fishery, when properly harvested, has the capacity to feed the world's protein-hungry peoples. Lack of adequate knowledge of Alaska's vast continental shelf has been detrimental to the development of its potentials. Establishment of a marine research and education center at Kodiak is one of our major goals.

"The recent announcement by the Secretary of Interior of a proposal for creation of a \$26 million Alaska institute for fisheries development is encouraging. It coincides with this recommendation. It indicates that the Federal establishment is becoming aware of the pressing need for making an inventory of the rich resources there is every indication exist in great abundance in our North Pacific continental shelf, an area greater in size than the land area of the state of Alaska itself.

"We are seeking the establishment of a joint State-Federal effort to proceed with our program for creation of a comprehensive complex of marine research and education facilities, a center capable of tackling the task of the resources of our continental shelf. The limited knowledge available today, though meager, does enable me to cite a few figures just to show you the magnitude of but a few of the fishery resources.

"With proper gear and plants, we will be able to realize annual ocean harvests that include:

- five to six million cases of salmon
- 200 million pounds of king crab
- 500 million pounds of shrimp
- and ocean perch and bottom fish such as

flounder and cod totaling a staggering two billion pounds.

"In addition, there are many other stocks including tanner crab, dungeness crab, scallops, and razor and hard shell clams, though we know less about them as yet. We have watched huge fleets of foreign fishing vessels that have traveled a third of the distance around the planet come to harvest these riches of our continental shelf for years. With industry and government as partners in progress, we will be able to harvest these seas for the benefit of our own State and Nation and the underdeveloped nations of the world.

"Industry that has long been an important aspect of Alaska's economy and is now making some giant strides forward is the timber industry. The volume of useful timber in Alaska is equivalent to the timber stands in the combined New England, Middle Atlantic, East North Central and East South Central States.

"Already in production are two big pulp mills in Southeastern Alaska which have a total value of \$120 million. Each mill employs about 1,000 men in logging and production. Also, in Southeastern Alaska a number of sawmills process high grade timber into finished lumber and cants for export.

"In late March we created a special Task Force whose purpose was to extend the economic development of the State's commercial grade timber forests. We gave them 90 days to get something going, and these men made things happen. As a direct result of this Task Force, plans are now being made for construction of a multi-million dollar timber mill on Afognak Island in Southcentral Alaska.

"Plans have also been announced for construction of a five million dollar timber processing plant near Seward. Production capacity will be 200,000 board feet of cants per day and an annual output of 192,000 tons of wood chips.

"In addition, a smaller lumber operation is being planned now for the Bethel area. We are determined to find a way to utilize the huge stands of timber in Southcentral, Interior and Western Alaska, and our Timber Task Force showed the way. Again, it was men who made things happen. Our policy from the very beginning has been one of direct action to make whatever policies we must so that all of our great State can enjoy the benefits of economic development.

"Now another activity which will lead to a tremendous economic development is the NORTH Commission created by this administration. It is composed of five leading businessmen from the South 49 and five from Alaska. These are men of action who will make things happen. Its first meeting will be held at the University of Alaska on the 27th and 28th of this month. The purpose of this Commission is to open up the Arctic North and forever dispel the fears that it is a land locked in ice and snow.

"We are 70 years behind the Russians and their opening up of the Asiatic Arctic. We intend to telescope time and to open up our Arctic within the next ten years. We know there are vast copper and other mineral deposits awaiting to be taken out of the ground and put into the marketplace.

"One of our first objectives is for this Commission to come up with a method to build and extend the Alaska Railroad through the highly mineralized area of the Kobuk country. With the development of these mineralized areas we will develop composite cities, create employment, and bring in royalties for the State.

"As for our newest and fastest growing industry, it was

exactly ten years ago today that oil was discovered at Swanson River. A few days later, on July 23, 1957, the Anchorage Times banner headlines read: 'Richfield Hits Oil.' I am very pleased to have this opportunity to salute the Alaska petroleum industry on the tenth anniversary of the discovery of oil of commercial value, the real beginning of our oil industry.

"In 1959 the large Kenai Gas Field was discovered. Exploration continued resulting in more gas discoveries. But it was not until 1963 that the second oil field was discovered. In the last four years the industry's success ratio has been much higher than the national average.

"Now, for the benefit of the financiers, let me tell you what we have today. There are eight oil fields, four of which are rated as 'giants'—that is having over one hundred million barrels recoverable reserves and only one fully developed. We have 16 gas fields, a compact, but expandable refinery built with the special needs of the Alaska market in mind, a marine tanker terminal, over 200 miles of oil or gas pipelines, 11 permanent platforms in Cook Inlet, and when all are completed there will be a total of 19 rigs on these platforms. New plants are under construction as well as new pipelines and a new terminal.

"Alaska started out on the bottom rung of the ladder among the oil producing states, but by the end of 1966 we ranked 18th in production and due to the present rapid development we would today rank 15th in daily production. I am told we can expect to start out 1968 in 11th place, 1969 possibly in eighth place and by 1970 we should be reaching for the fifth rung.

"In estimated, proved, recoverable reserves of crude we already rank seventh, and we rank eight in estimated natural gas reserves. Only two weeks ago we had a new oil discovery in the Trading Bay area which will change these figures upward. I say that this is industrial progress for ten short years, and the future is bright for Alaska and for the oil industry as it begins to realize more of a return on its investment.

"If you think I sound optimistic, let me say that the oil industry is also optimistic; otherwise, they would not have invested a billion dollars to make this progress possible when the gross value of all the crude oil and natural gas sold amounts only to about \$225 million. We have several companies that cannot yet see any production; however, they are still actively exploring several of our basins and I feel confident there will be many other successful discoveries.

"As I mentioned earlier, it is the policy of my administration to offer every encouragement for all developments. Alaska has benefited materially from the oil industry, having received a direct income of about 150 million dollars, which is about 25.44 percent of the cumulative annual budgets.

"We should not overlook many other important indirect benefits such as year-round employment, new service industries, all-purpose roads, bridges and trails that open up the country for other developments, as well as the industry's cooperation in many public service areas. It is estimated that by the end of 1968 our oil production will approach 200,000 barrels per day.

"Add natural gas production and then convert this into royalty income to the State and we should start out 1969

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with a figure of about \$20 million which will increase substantially during 1969 even without any new discoveries and will be in excess of \$30 million in 1970. Put another way, this will amount to an income to the State of about \$100 per capita. On a per capita basis this would be a very high figure compared to other states where the majority of the royalties are paid to individuals who own the mineral rights.

"Alaska has a minor amount of fee land and we are returned 90 percent of the royalties, bonuses and rentals on Federal lands. It is important to note that with modern-day oil industry conservation practices, that this income to Alaska will continue for the next quarter-of-a-century and, of course, increase with new production.

"Now let me move on to new plants and plans for the future. Tomorrow, Chevron Asphalt Company, a Subsidiary of Standard Oil Company of California, will dedicate their asphalt topping plant at Nikiski. We will now produce our own asphalt for our highway paving program. On July 25 we will hold our 20th State Competitive Oil and Gas Lease Sale of 311,250 acres in the Cook Inlet area. From the interest shown by the industry I would expect this to be a lively sale. At this time I can only say that I hope each company, or group of companies, bids high enough to acquire the leases of their choice.

"Later this year Chugach Electric's Beluga River Gas Generating Plant will be in operation; more royalty income from gas production. In November, the first tanker will lift crude from the new Drift River Terminal on the West side of Cook Inlet. This terminal will handle exceptionally large tankers, and I hope there will be no problem with the Jones Act. As some of you know, we have defied the Jones Act in an effort to draw attention to the unfairness of applying it to a state surrounded by two foreign powers: (Canada and Russia), and we think we will succeed in getting it changed.

"The reason the Jones Act affects us more than the South 48 is that we are not contiguous to other states. Our two closest neighbors are foreign nations and one of our great potential customers is another foreign nation, Japan. Where the Jones Act was applicable and necessary many years ago in the South 48 it does not fit Alaska's unique situation and should be removed or modified to our benefit and satisfaction due to our unique geographical location.

"You have but to look at a globe and you can readily see that we are a top of a continent and at the headwaters of the Pacific. In many instances it appears that we are more of a country than just another state, and the further development of our native industry will depend in part on the Federal Government's recognition of this fact.

"In the summer of 1968 two more permanent platforms will be installed in Cook Inlet.

"In November 1968, Collier Carbon and Chemical Corporation's (a Union Oil Company Subsidiary) Ammonia-Urea Plant Fertilizer Complex is expected to be in operation. The ammonia plant will be the largest on the west coast and the urea plant the largest in the world, producing 1,000 tons per day. This complex will represent a fifty million dollar investment, with Japan Gas-Chemical Company participating in the urea plant. Since the complex will utilize a large amount of natural gas as feedstock, our gas production will increase as well as our royalty income.

"Late in 1969 Phillips and Marathon's Liquefaction Plant is expected to be in operation. This plant, the world's largest, and special tankers represent an investment of over 125 million dollars to provide liquified gas for Japan. With these new plants going into operation it is extremely important to note that the products will be competing in the world-wide market. We appreciate the Japanese investments and the State will continue to encourage these investors.

"I came here to talk to you about Alaska, to share with you our visions of the State's future, to tell you what we are doing to help Alaska realize its great potential, and to invite you to also participate. To be frank, Alaska's BAA credit rating on the New York Bond Market is not good, and I think it should be changed because it is not justified. Credit is based on one's ability to repay, and Alaska's ability to repay is as great as any state in the Union or greater. The general growth of the State shows that.

"Finally, looked at from a broad approach, Alaska's general obligation is but a small part of its ability to repay. Current interpretation of Alaska's credit situation slows down our rate of economic development, and we have invited you here to help us correct this problem."