

# International Trade Implications of US-Korean Policy and North Slope Gas Monetization

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By

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Friends:

Today I will offer a few thoughts on 1) Alaska's international trade policies, especially relating to an Alaska North Slope export project; and 2) how the North Korea challenge affects Alaska.

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First, foreign relations and Alaska's place within those arrangements and processes.

Sometimes, when embarking on such complexity, it is wise to first turn to the experience of our founders, whose foreign relationships were broad, deep and complex. After all, a new colony and then the newest country had major relationships spanning their own diverse colonies and Native American tribes ... also, including such world powers of the time as England, France, Spain and Germany.

At the time, who could have been more experienced in these relationships than our first president? In his farewell address,

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Washington warned against “permanent” foreign alliances that threatened America’s sovereignty while acknowledging the value of temporary alliances.

In that 1796 address to the nation, he counseled us, saying, “the jealousy of a free people ought to be constantly awake, since history and experience prove that foreign influence is one of the most baneful foes of republican government. HE SAID, “ Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalry, interest, humor or caprice? It is our true policy to steer clear of **permanent** alliances with any portion of the foreign world; ... honesty is always the best policy. ... Taking care always to keep ourselves by suitable establishments on a respectable defensive posture, we may safely trust to **temporary** alliances for extraordinary emergencies.”

And then, the great Father of America, set a world record. He quietly rejected calls to become the absolute ruler of the new country and facilitated the constitutional transition of power to his successor, John Adams.

Adams had to deal with some of the same foreign entanglements that must have plagued Washington, including the deadly 1789 French Revolution and 1793 British high seas aggression, badly resolved by John Jay’s flawed treaty.

After his term and a bitter election, he turned the government over to Thomas Jefferson who actually coined the phrase in his first inaugural address of 1801, "Peace, commerce, and honest friendship with all nations-**entangling alliances** with none."

SO WHAT DOES ALL THAT HAVE TO DO WITH THE PRICE OF TEA IN CHINA?

A recent Business Roundtable report itemized the benefits of Alaska's international trade. While I won't go into all the details here, one notes:

- We export north of \$5 billion in goods and services to 104 countries
- Nearly \$2 billion of our exports go to Free Trade Agreement countries
- With additional oil discoveries, our access to international markets could produce significantly more international wealth transfer to our employees, companies and state
- With proper economic conditions, a North Slope gas pipeline/LNG project could further strengthen Alaska and her future.

So from an Alaska viewpoint, international trade is important – while we know that to a large degree the nature of any federally negotiated trade deal determines its true worth to the whole country.

But let's agree that from an Alaskan viewpoint trade is good -- especially trade that is fundamentally, "free trade" (i.e. at both ends of the bargain).

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Harkening back to Presidents Washington and Jefferson and to my own personal experience participating in negotiation and adoption of bilateral agreements in Korea argues for two fundamental ingredients: "simplicity" and "outs".

Since agreements are negotiated by temporary political units, their authors could be voted or otherwise cast out of office at any time, emphasizing the importance of clear and simply understood provisions to their successors. One notes, too, that the next generation of

temporary elected and appointed officials may espouse different policies. Furthermore, the more complex such agreements are, the more open they are to misinterpretation and disagreement and lack of enforcement over time. This is all to say that it is important to have “outs” that meet the needs of the parties and defeat the morass of long term “entangling alliances”. Those “outs” may include deadlines, termination dates, negotiation/mediation processes to resolve misunderstandings or disagreements.

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#### An Alaska Gas Pipeline/LNG project as an “entangling alliance”.

Now apply this to the current Alaska North Slope gas monetization process, which I will demonstrate is more suited to private sector management and international gas supply agreement negotiation than to government sector leadership and entangling, intergovernmental arrangements among temporary, political decision makers.

1. Private energy consortia can make instant decisions, pivoting in response to changing condition; whereas, government decisions must wait for bureaucratic and legislative authorization – sometimes delaying critical decisions for months or even forever.
2. If the private sector maintains leadership of the project worldwide resources of the companies are focused on marketing the resource with well-known worldwide markets when those markets are ready to accept and contract to pay for the gas.
3. A government of temporary elected and appointed officials managing other people’s money are neither professionally

capable nor properly incentivized to market a publically owned resource, especially when  $\frac{3}{4}$  of the value is controlled by others.

4. A gas project office, like the Alaska Gasline Development Corporation, cannot operate independently for the public good without being subject to inappropriate political influence and probably corruption by members of the temporarily elected governor's temporary hires. The publically funded AGDC is also subject to a variety of explicit and more subtle influences by temporarily elected legislators and contractors who have influence with legislators and the administration.
5. Alaska's governor is focused on obtaining gas project investment and purchase agreements from Asia. The problem is, the most knowledgeable gas experts – the North Slope producers – have said that now is not the time to further develop the project. One is concerned, therefore, that the Governor's solicitations will reward him with loss of face when Asian executives and government leaders ask, "Where are your producers? Can you sign gas agreements today for today's prices? What exactly would be the terms and conditions if we were to invest in your project? If you say the producers will be "involved" in building and operating the project, why aren't they taking the "lead" right now? The producers say they require fiscal certainty to proceed; why did you deny them fiscal certainty earlier this year and when do you plan to provide them with a Constitutional guarantee of fiscal certainty (i.e. that also provides potential investors with a higher confidence in the project?) "
6. Note that obtaining, "Memoranda of Understanding" from potential gas investors and buyers are not firm agreements. In

some cases they are nothing more than expressions of Asian hospitality which signals, “Thank you for your visit. If someday you have a real gas monetization project, we would be pleased to discuss it in more detail.”

7. Alaska’s governor frequently refers to the “sovereignty” of Alaska. Under the U.S. Constitution, “Each **state** retains its **sovereignty**, freedom, and independence, and every power, jurisdiction, and right, which is not by this Confederation expressly delegated to the **United States**, in Congress assembled.” The problem is that the federal government has unconstitutionally usurped so much of Alaska’s statehood sovereignty that it can no longer be called a sovereign state. [See Governor Hickel’s comment](#). I wrote a speech in the early 80s for retired Governor Bill Egan in which he instructed me to include the term, “predatory federal government”. He told me we were watching Alaska’s wealth being usurped year by year by a predatory federal government. Alaska’s current governor refers to Norway’s great oil tax and regulatory system, incorrectly comparing Alaska’s “lost sovereignty” as a colonized **state** to a sovereign, Scandinavian **country**.
8. While there is much more to say in support of private sector control of private sector activity, one must also acknowledge that private citizens and politicians are loathe to accept responsibility and risk, whereas the private sector must calculate risk into all that they undertake. And project risks there are:
  - a. The risk of **non-completion**; the project starts but for some reason or another, cannot be finished. Are Alaska’s politicians and citizens willing to bear a multi-billion dollar loss on a half-completed project?

- b. The risk of ***force majeure***. Are Alaska's politicians and citizens willing to bear a multi-billion dollar loss due to earthquake, volcanoes, terrorism, a shipload of pipe or a gas treatment module sunk in the deep Pacific, etc.?
- c. ***Cost overrun*** risk. When construction costs surge due to unexpected hyperinflation, are Alaska's politicians and citizens willing to bear a multi-billion dollar loss?
- d. ***Cost of Service***. By now, Alaskans know that the price of oil and gas can be volatile. Are Alaska's politicians and citizens willing to bear a multi-billion dollar loss when unexpected new gas supplies depress world prices, or when unexpected worldwide recession depresses demand and results in broken, long term take-or-pay agreements with defaulting utilities?
- e. What about the risk that smoldering ***low gas prices*** result in an obligation for the State to "ship-or-pay" its gas when the cost of transportation exceeds the price received? Will politicians and citizens grit their teeth and accept responsibility. Or, will they be more likely to blame the producers, blame the buyers, blame anyone/anything but themselves?
- f. And more....

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**Republic of Korea (ROK) – Peoples Republic of Korea**  
**Implications**

I love the free Korean people for their industry, in general. Imagine converting the desolation of the early 1950s Korean War into the dynamic, economic and cultural treasure it has become.

One of the reasons for Korean success is that their citizens do not make stupid deals. They make deals that benefit themselves. They are serious players. They respect strength of character, financial ability and reliability AND responsibility.

But don't underestimate the leaders of the North, either. Beginning with Kim Jong-un's grandfather, Kim Il-sung, the North has been rabidly hostile to the outside world, has enslaved its entire population and threatened the stability of the entire region. Anyone with investment or assets in the area must not ignore the risk of North Korean hostile action.

The Korean Peninsula is about 3800 miles from Alaska and less than 600 miles to Japan. Experts believe the Peoples Republic of Korea, (i.e. communist North Korea) is storing over 1,000 missiles. All have the capacity of reaching the ROK capital of Seoul. Most have the ability to hit Japan. Some can reach the North American mainland, including Alaska. They have a nuclear capability with quickly evolving micro technology enabling intercontinental capability. They may also have the largest standing active and reserve army in the world.

I would offer these conclusions.

**First. Any Alaska gas agreements** with Japan and Korea should be inked with the awareness of the hostile North Korean wild card potential.

**Second.** Alaska should continue to support Department of Defense efforts to reinforce Alaska's military assets, particularly those involving early warning systems, anti-missile capability, naval and air forces that could reinforce our Asian and also Alaska's Arctic positioning, which Lieutenant Governor Mead Treadwell will be discussing.

***DOD presence in Alaska is therefore an Alaska trade imperative.***

Thank you!

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## UPCOMING PROGRAMS & EVENTS

### US FOREIGN POLICY & ELECTION READINESS

Featuring **Anchorage Mayor Ethan Berkowitz**;  
UAA Political Science Professor, **Dr. Forrest Nabors**;  
and **Northern Gas Pipelines' Dave Harbour**  
Wednesday, October 12th, 49th State Brewing Co  
5:30pm social mixer | 6:00pm program

This evening dialogue will feature academic, community, and business perspectives on US foreign policy to prompt thoughtful consideration in preparation for the election. [Learn more about each panelist online.](#)



*World N*  
Engaging Alaska's leaders i

Join us at 5:30pm for a social mixer with our guest speakers prior to the program start at 6:00pm. Beverages will be available for purchase during the event and social hour. Please plan to arrive earlier if you plan to eat food prior to the program or plan to try [49th State Brewing Co's](#) delicious food after the discussion. (More below)

**Speakers: *Community Perspective* – Mayor Ethan Berkowitz (Replaced by former Lieutenant Governor Mead Treadwell)**



Mayor Ethan Berkowitz is proud to be an Anchorage resident since 1990. He met his wife Mara here, at the old Fly by Night Club. Now their two kids benefit from our city's public school system and many of the other opportunities Anchorage provides.

Mayor Berkowitz earned an undergraduate degree studying Government and Economics at Harvard University, where he graduated with honors. He has received a Master's degree from the Scott Polar Research Institute at Cambridge University, and a law degree from Hastings College of the Law. After moving to Alaska, he worked as an assistant district attorney before serving for ten years in the Alaska State Legislature. As a state legislator he supported fiscal responsibility and a more comprehensive and sustainable energy policy. After serving as Minority Leader for 8 years, Mayor Berkowitz helped jumpstart several technology and energy projects, including the installation of a sub-marine fiber optic cable from Europe to Asia through the Northwest Passage and a major geothermal project in Northwest Alaska.

Like many Anchorage residents, Mayor Berkowitz enjoys Anchorage's unique recreational and cultural opportunities, whether it's skiing on the Coastal Trail or ice-skating on Westchester Lagoon. In the summer, family hikes in the Chugach range are a must. He and his family recognize how lucky they are to live in this amazing city.



***Business/Trade Perspective* – Dave Harbour**

Dave Harbour is publisher of the Northern Gas Pipelines blog, created 15 years ago. He has served as director or vice president of public, governmental or external affairs for the 26 member Arctic Gas Consortium, Northern Natural Gas of Omaha, Atlantic Richfield Company, the Alaska Gasline Development Corporation (AGDC) and Alaska Pacific University. He is founder, or organizer, of Saturday Market, Arctic Power, the Anchorage Downtown Partnership, the Eisenhower-Alaska Statehood Monument Foundation and the Alaska Support Industry Alliance. He is a former commissioner of the Anchorage Bicentennial Commission, the Anchorage Heritage Land Bank Commission and The

Regulatory Commission of Alaska.

A former Army officer, Harbour served as president of Action Security and the American Bald Eagle Foundation, Executive Director of the Anchorage Parking Authority and a consultant to BP, Exxon, the State of Alaska, Alaska International Air, British Airways, Hotels, the Alaska Railroad, American Motors Corp., the Bureau of Indian Affairs (ANCSA), the World Trade Center – Alaska, Anchorage Concert Association and the Alaska Visitors Association. He is Chairman Emeritus of the Alaska Council on Economic Education and the Alaska Oil and Gas Congress. He is a Commissioner Emeritus of the National Association of Regulatory Utility Commissioners and former Chairman of the Anchorage Chamber of Commerce, Common Sense for Alaska and the Hugh O'Brian Youth Foundation-Alaska.

Dave has produced television programs, commercials and documentaries and a motion picture film. His photos, documentaries, articles, poetry and interviews have appeared in thousands of radio, television, blog, magazine and newspaper venues throughout the US and Canada. He is former president of the Alaska Press Club, an Accredited Member of the Public Relations Society of America and holds a Masters Degree in Journalism-Communications from Murray State University.

***Academic Perspective & Program Moderator – Dr. Forrest Nabors***



Dr. Forrest Nabors joined the Department of Political Science at the University of Alaska at Anchorage in 2011. He has taught American government and political philosophy at Oregon State University and the University of Oregon. His current scholarly research is focused on the changing character of American government leading up to the Civil War and Reconstruction.

Prior to becoming a professor, Dr. Nabors was a high technology business executive in Portland, Oregon. He has remained actively engaged in supporting economic and civic development in his communities. Dr. Nabors is from Fair Haven, New Jersey.

**Online registration for this event will close at 12:00pm on Wednesday, October 12th.** Questions about this event and registration should be directed to [rsvp@alaskaworldaffairs.org](mailto:rsvp@alaskaworldaffairs.org) or (907)276-8038.