Freight Transport in Alaska:
An Economic "Tipping Point"

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Introduction

This paper will discuss the components within Alaska's transportation and trade sectors which, when looked at holistically, have the potential to generate an economic "tipping point" for the state. To borrow from Malcolm Gladwell's popular use of the phrase: some little

things can make a big difference. By outlining and bringing together some seemingly disparate items, a case will be made for how Alaska finds itself in a position to solve a long-standing problem in its economic development--- the attraction of value-added manufacturers. The components of the proposed "tipping point" involve enhancing the marketing of the foreign trade zone in Anchorage as well as pursuing two modal initiatives. These involve: a third phase of air cargo liberalization at Ted Stevens Anchorage International Airport; and leveraging the expanding capacity at the Port of Anchorage. The geographic advantage of Alaska in U.S.-Asia trade has already been further enhanced by an operational advantage; but there is more work to be done with respect to the latter if a truly sustainable Alaska manufacturing sector is desired.

Anchorage's Foreign Trade Zone

The foreign trade zone (FTZ) is hosted by the Port of Anchorage (PofA), though facilities are located both there and at Ted Stevens Anchorage International Airport (ANC). While both constitute FTZ (General Purpose) #160, they are separated by about eight miles of suburbia. An operator located at ANC is Anchorage Fueling and Service Company which receives, stores and delivers jet fuel within the FTZ. Nine jet fuel tanks are located at the PofA while three are at ANC. Tank capacity is about 100,000 barrels each. A 12"-wide, eight mile pipeline carries the fuel from the PofA to air carriers at ANC. The PofA also stores jet fuel for its neighbor, Elmendorf Air

Force Base. Foreign status jet fuel is transferred and sold to international gas-and-go carriers at ANC thus avoiding any taxes and customs duties which would normally be assessed to Anchorage Fueling and Service Company (and passed on, in whole or in part, to the air carriers). Currently, two-thirds of the ANC's jet fuel is handled by the PofA[1]; for Elmendorf it is 100%.

An example of value-added activity is to be found at FTZ (Subzone) #160A in Kenai, Alaska which is about 70 miles southwest of Anchorage along Cook Inlet. Tesoro Corporation's refinery located there is capable of producing 72,000 barrels of refined oil per day. This includes ultra low sulfur gasoline, jet fuel, ultra low sulfur diesel, heating oil, heavy fuel oils, propane and asphalt. Crude oil is delivered to the PofA and sent to Kenai via pipeline; and processed jet fuel, gasoline and diesel fuel are, likewise, sent back to the PofA via pipeline. These pipelines have a capacity of 40,000 barrels per day.

Based on a per gallon jet fuel price $2.36, the amount of jet fuel sold in 2009 amounted to about $1.3 billion while foreign status amounted to only about $30.2 million. Still, the intent is to hold down costs for non-U.S. airlines engaged in international commerce.

While this process is beneficial to air cargo activity at ANC it is a narrow use of the traditional FTZ model. Value-added is limited; and the duty avoidance taking place is really an export tariff (in the form of a sales tax) as opposed to the more typical import tariff.

The Port of Anchorage

The Port of Anchorage accounts for almost 90% of the goods imported into Alaska. Nearly all of the containers arrive via the Port of Tacoma, carrying about $3.5 billion worth of goods per year. Four ships per week (two LO-LO; two RO-RO) arrive from Tacoma carrying about 2,500 containers. In bulk transport about 95% of cement imported into the state arrives at the PofA. About 90% of the gasoline used by vehicles and water craft passes through the PofA. Given its geographic locale and storage of jet fuel for Elmendorf Air Force Base, it is one of only 19 National Strategic Seaports, as designated by the U.S. Department of Defense. About 500 vessels visited the 50 year old docks in 2010.

The five berth, 160 acre PofA is in the middle of a major expansion. About 135 acres of new space will be added and nearly double current port capacity. Currently, three berths offer 38-foot gauge gantry cranes reaching out to a width of 9 containers. After expansion, there will be five berths with 100-foot gauge gantry cranes able to reach out to the 17 container width of modern (Panamax) container ships. And with the -35 ft mean lower low water (MLLW) being dredged down to -45, the PofA will be able to handle larger vessels more efficiently.

The construction process, under the supervision of the U.S. Maritime Administration, is slower than most other locales--- most notably due to the presence the

endangered beluga whale. Workers are required to stop work twice a day during low tide which, due to start-stop and extra time, has added an extra $200 million to the project's cost. The new barge docks are due for completion in 2013 while new the docks with 100-foot gauge gantry cranes will be ready by 2015. Once all current users are relocated to new docks, the older docks will be upgraded. The entire project is set to be completed by 2021.

Anchorage Air Cargo Transfer

It is interesting to note that many foreign air cargo carriers which gas-and-go in Anchorage are not aware of the unique and unilateral deregulation which benefits ANC. To the extent that they do know they often do not believe that such operations are possible. Of course, examples of unilateral trade liberalization on the part of the United States are rare.

The nature of the air cargo options are covered thoroughly in Prokop (2002) and Prokop (2008). What is most pertinent to the discussion here is to note that the first phase of liberalization, in 1996, was undertaken in such a way as to protect domestic jobs; that is, foreign cargo carriers could transfer freight between their own planes or a domestic carrier. Transfer to a different foreign carrier meant that that flight had to proceed to a third country. Furthermore, the options applied only to inbound U.S. flights. In the second phase, in 2004, the options were extended to outbound U.S. flights; and,

significantly, inbound and outbound transfers may now be between different foreign carriers. Thus, the second phase moved to create cargo efficiencies through network-based economies of scale with or without domestic carriers.

Why are these options not being taken full advantage of? Apart from the misunderstanding and/or apprehension over unilateral trade liberalization there is also the issue of coordinating intra-fleet transfers of cargo and--- even more out of the ordinary--- coordinating inter-fleet transfers between foreign carriers outside of each one's domicile. Carriers used to simple gas-and-go would need to properly schedule planes to make the transfers work. Some places might find themselves waiting for other planes to arrive in order to affect the cargo transfers.

ANC is one of the world's top 10 airports in terms of cargo activity. It is the world's busiest airport in terms of "landed cargo"; that is, cargo either taken off or in-transit. Not much cargo is placed on planes at ANC because Alaska does not have manufacturing activities which lend themselves to air cargo transit. Of course, if the air cargo liberalization were enhanced to allow not only a transfer of cargo but also a lay-over of cargo in-between planes, the dispatching problem would be solved and it would allow for new options for the FTZ.

Next Steps

The FTZ (shared at the PofA and ANC) is currently used to facilitate transportation. The air cargo

transfer options at ANC, though often misunderstood by foreign carriers, are designed to facilitate transportation as well. But most FTZs in the U.S. actually facilitate exports and encourage value-added manufacturing in order to get around tariff barriers. The "tipping point" is all about leveraging geographic and cargo operational advantages to attract manufacturers to Anchorage instead of another point along their global supply chain. This requires enhancing the FTZ agreement beyond fuel usage; and negotiating a further liberalization to the air cargo transfer deregulation which ANC currently enjoys. In the past, these two processes (i.e., FTZ and air cargo) were treated separately and handled by two different interest groups. Now it must be handled holistically and by the same set of planners.

Air cargo laid-over at ANC could be transferred to the FTZ where value-added activity could be performed and the cargo placed onto another plane at another time. Value-added could take place in the form of: destination-specific packaging; cross-docking and bundling of imports from different Asian locales. The advantages which FTZs offer for JIT manufacturers with cross-border supply chains might be further enhanced at ANC because of the geographic advantage on top of the operational one.[2]

The PofA has been marketing its port expansion in order to attract ocean vessels from along the Asia-U.S. West Coast great circle route. ANC markets its locale in order to attract more foreign carriers to gas-and-go. The

Anchorage Economic Development Corporation (AEDC) touts the tax environment and access to resources as a means to attract businesses to the state. Each has operated in a narrow context. By working together it may be possible to meld geography and operations into a "tipping point" in the state's business diversity.

Endnotes

[1] ANC also receives jet fuel from the Flint Hills Resources refinery in North Pole (a town close to Fairbanks). The fuel is delivered by the Alaska Railroad.

[2] These include the cash flow benefits of filing paperwork for U.S. Customs on a weekly basis as opposed to an item-by-item entry basis. Furthermore, items may be received into the FTZ when customs officers are off-duty--- a truly 24-7 import option.

Bibliography

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