Opinions

Alaska needs to reclaim its fair share of oil revenue

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The Trans-Alaska Pipeline, seen near Copper Center on Tuesday, September 9, 2014. (Loren Holmes / ADN)

Alaska has permitted our annual, net petroleum revenues to decline from 35 percent of the $24 billion in petroleum revenues realized from exporting our oil in 2012 (or $8.5 billion) to 8 percent of the $13.8 billion in petroleum revenues realized from exporting our oil in 2015 (or $1.1 billion). This is a $7.4 billion reduction in petroleum revenues to the state in the last three years.

Roughly half of this $7.4 billion decline is due to declining oil prices, the other half is due to our accepting less than our one-third, historic fair share of petroleum revenues.

Stated differently, the decline in oil prices eliminated the surplus revenues we used for capital projects, and the decline in our one-third historic fair share has resulted in our current $3 billion to $4 billion budget deficit. At our current 8 percent share, we are giving away our resource wealth at unsustainable and unprecedented levels.

In this article I'm going to suggest one approach to realizing our fair share.

Alaska remains a major petroleum region

As a preliminary matter, Alaska is one of the major petroleum regions in the world with hundreds of billions of dollars of proven crude oil reserves and far more in nonproven reserves. Alaska's legacy fields and the Trans-Alaska Pipeline System were developed when the price of crude oil was less than $10 per barrel. Even at $50 per barrel, the price of crude oil has exceeded inflation since our legacy fields were developed and is expected to continue to exceed inflation into the foreseeable future.

Given the extensive remaining resource and continuing real growth in the price of crude oil, this period of our economic history is not near the end of the wealth that will be generated from our massive petroleum resources.

This is no time to set petroleum revenue policy timidly, and so run massive deficits, exhaust our savings, and raise taxes on all Alaskans — all to subsidize the continuing export of our vast petroleum wealth out of Alaska.

Getting less than our fair share is the issue

Alaskans first need to identify the issue correctly — our current petroleum revenues are only a fraction of our fair share. Obtaining our fair share is required by our Constitution, sound fiscal policy, and simply good business.

This issue is an Alaskan issue, not a partisan issue. Every Republican and Democratic governor of Alaska prior to the last administration was able to maintain our fair share. Alaskans today should find the political courage necessary to honor and continue the legacy of these notable Alaskans. Further, this issue is a fair-share issue, not a government-spending issue. We should recover our fair share of our petroleum wealth regardless of how we choose to save, invest or spend it.

Cut government spending

That said, Alaskans do need to cut wasteful spending and increase the efficiency of state government.

We have become too complacent. We have an opportunity to do now what we should have been doing all along—insist our government operate efficiently. Doing so now would also help build the political coalition necessary to realize our fair share of petroleum revenues.

Encourage competition

The continuing market and political dominance of the three major producers in Alaska has resulted in less exploration and only a fraction of our historic share in petroleum revenues. There is far more competition among producers in other major petroleum regions throughout the world. More competition among producers in Alaska would help us reclaim our economic sovereignty.

We may achieve more competition among producers in Alaska by (1) reaching out and actively encouraging independent producers to do business in Alaska; (2) changing our state's regulatory culture to be more responsive to independent producers by streamlining permitting, decision-making, and dispute resolution; (3) opening up field and transportation facilities controlled by the three major producers to independent producers for fair compensation; (4) ensuring field and transportation rates on pipelines and oil tankers controlled by the three major producers are competitive, where possible, and fair, where competition is not possible; and (5) preserving and paying credits when they are due to the independent producers that heavily rely upon them. These simple steps would send a clear message to independent producers that Alaska is open for business.

The current method does not work

To grow petroleum revenues and our fair share, Alaskans also need a method that works for collecting our petroleum revenues. Our current approach, based on a share of the "net income" for producers, has largely failed. Here's why:

(1) The base rate for the major legacy fields and for harvesting behavior is insufficient.

(2) Credits are being politically gamed.

(3) Losses from the last method were carried forward.

(4) The definition of "new" oil is political sophistry.

(5) Progressivity is insufficient.

(6) Alaska is years behind in auditing the 55,000 lines of deductions currently being claimed.

Changes that would help

If we continue with this percentage of "net income" approach, then it will need to be substantially revised. Among the revisions we should consider are:

(1) Increase the base rate for the major legacy fields and for merely harvesting our resources rather than exploring for additional resource.

(2) Eliminate credits (taken as deductions and paid) for all but the most challenged fields.

(3) Eliminate loss carryforwards.

(4) Eliminate the "new oil" definition or reduce the scope of its application to only the most challenged fields (which would not include Point Thomson).

(5) Increase progressivity.

(6) Add the auditing and legal resources necessary to ensure revenue certainty for the state and producers and to minimize gaming.

(7) Increase transparency so we know the financial performance of the producers operating in Alaska.

While it sounds complex, we should not let the perfect become the enemy of the good. Done any number of ways, these revisions should increase current revenues by almost $3 billion.

A simpler and better method

The more complicated the approach to petroleum revenues, the less likely it is Alaskans will receive their fair share. One far simpler and better method for collecting our petroleum revenues would be to base petroleum revenues on a producer's "gross income."

Our historic share of petroleum revenues has been 25 percent to 35 percent of the "gross revenues." A "gross revenues" share of between 25 percent to 30 percent during periods of lower crude oil prices and a higher percentage as crude oil prices rise would give us our fair share. Such an approach is simple, requires less resources to determine, audit and enforce and has worked in other locations.

Progressivity is a key

Regardless of the method, Alaskans need to ensure greater progressivity. When crude oil prices are lower, we should accept a lower percentage than when oil prices are higher. Under current revenue policies, rising oil prices will not increase petroleum revenues nearly to the same degree as they have in the past. As a result, we can never be in a long-term balance because we get significantly behind when prices are lower and only break even when prices are higher. With a higher base rate and greater progressivity, we can achieve a long-term balance because then we would get only slightly behind when prices are lower and slightly ahead when prices are higher.

No viable alternatives

Finally, let me state the obvious—there are no viable alternatives to receiving our fair share. The overwhelming wealth generated in Alaska is from our petroleum resources. There is no other economic core of activity currently capable of sustaining a modern Alaska. We have permitted annual, net petroleum revenues to decline from $8.5 billion to $1.1 billion (or by $7.4 billion) in three years.

Adopting (1) a statewide income tax, (2) a statewide capital gains tax, (3) a statewide sales tax, (4) laying off 5,000 state employees (at $100,000 per employee), and (5) cutting our PFDs in half would do nothing to ensure we are getting our fair share of petroleum revenues, would devastate our economy, and would only reduce our current deficit by roughly $2 billion. Simply requiring the producers to pay us our historic fair share would increase revenues by roughly $3 billion under current conditions.

Alaskans — it is your choice as to whether we can find a way to continue to recover our one-third historic fair share of petroleum revenues. From my perspective, Alaskans have no realistic choice but to demand political leadership capable of recovering our fair share.

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Robin Brena is a longtime oil and gas attorney who served as the chairman of the Oil and Gas Subcommittee for the Walker administration transition team.

49 Comments