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John Havelock: State stands to gain by purchase of North Pole refinery

By JOHN HAVELOCK February 24, 2014

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Why doesn't the state buy the Fairbanks-North Pole refinery? If it closes, which the Koch brothers who own the refinery say is their plan, dozens of jobs will be lost in the Fairbanks area. Since most of the refined product is shipped on the Alaska Railroad to the Anchorage International Airport, the loss of this freight will mean dozens of jobs are lost on the Alaska Railroad too. The secondary effects of job losses are well known. If the total loss is just 100 jobs, that's \$5,000,000 or more in annual losses to the state's economy and more jobs lost from dollars that no longer roll over in the economy. Additional costs to the state from job losses include unemployment insurance and meeting some family distress situations. Millions in lost revenue to the Alaska Railroad mean the Railroad will be in a poorer position to take on another important societal task now on the drawing board: the opening of a commuter service to Wasilla and the Valley. The commuter service will make life safer for hundreds of Valley residents and create more jobs.

The cost to the state for this purchase should be nominal. Of what value to the Koch brothers is a closed refinery? It is a liability since the owners are obliged to tear the refinery down and restore the land.

Apart from impact on the state's economy, the state has an independent interest in maintaining Alaska's only refinery. A maritime strike, an international event that sent refined crude prices skyrocketing, a weather emergency or other unforeseen event could endanger or cut off alternative supplies coming in from abroad.

The existence of an Alaskan refinery may provide a base for expansion of oil processing or use within Alaska. The Koch brothers are owners of the refinery for the purpose of turning a profit. Apparently it is not turning a profit. Direct profitability is not as important to the state as it is to the Koch brothers because the state can see other values to the economy and an outlet for the use of the state's royalty share of TAPS oil. There is also the possibility that changes in the economic environment may make the refinery eventually profitable, a worthwhile speculation for the state but not for the Koch brothers.

There is some indication that the Anchorage International Airport triggered this turn of events because the managers of the Airport, the primary users of the refined product, determined that they could make the airport more profitable by buying fuel imported from abroad, brought up Cook Inlet in tankers. The airport conducts a huge business refueling the thousands of aircraft that carry passengers but mostly freight, in the trans-Pacific and Asia-Europe routes.

The airport is a public facility, like the state owned railroad, subject to determinations of overall benefit to the public interest of the state. The question must be asked: is the marginal value to the Airport of a reduced price of fuel purchased by it worth the damage to the economy caused by its cessation of purchases from Alaska's only refinery?

Increased tanker traffic in Cook Inlet is not to be encouraged. It happened so long ago that few people remember but we have already had one spectacular tanker collision and fire right off the Anchorage port. In the course of its investigation of the wreck of the Exxon-Valdez, the State noted that Cook Inlet, with its rocks, tides, currents and ice was a far more dangerous waterway than the passage through Prince

William Sound to Valdez. An oil spill in Cook Inlet could be as equally devastating to the fisheries and marine environment as the Exxon-Valdez.

The state is now pondering an investment of billions of dollars in a gas pipeline of speculative value. The purchase of an existing refinery involves a financial exposure of less than one percent of that proposal for more certain results. Of course there are many factors that cannot be plumbed in a brief news column but the state should at least consider funding the railroad to purchase the refinery.

John Havelock is a former Alaska attorney general. He lives in Anchorage.

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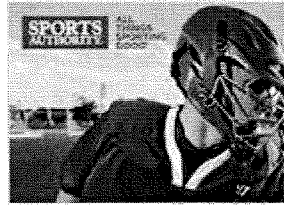
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