HR

3

(9)

HOUSE COMMITTEE REPORT

3/2

Date referred: 2/25/87

FURTHER REFERRALS: Rules

DATE: 3/2/87

The Resources Committee has considered HR 3

Relating to the export of Alaska oil.

RECOMMENDS:

[ ] replace with ______________ [ ] the same title [ ] a new title

[ ] attached amendment(s)

[✓] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] additional referral to the ______________ Committee

ADOPTS: [ ] __________ letter of intent

ATTACHES NEW FISCAL NOTE(s):

[ ] fiscal impact

[✓] zero fiscal note

[ ] zero with analysis

[ ] same as previous fiscal note published ______________

[ ] same as previous zero fiscal note published ______________

SIGNING DO PASS:

[signature] (Cotten)

[signature] (Herrmann)

[signature] (Navarre)

[signature] (Hoffman)

[signature] (Pearce)

[signature] (Sund)

[signature] (Shultz)

SIGNING OTHER RECOMMENDATIONS:

[signature]

Chairman's signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

REQUEST:

Bill Version: HR 3
Publish Date:

Revision Date:
Title: Relating to export of Alaska crude oil
Sponsor: Davis
Requestor:

Agency Affected: Comm. & Econ. Dev.
BRU:

Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Terry Elder, Deputy Commissioner
Phone: 465-2500
Division:
Date: 3/2/87

Approved by Commissioner: J. Anthony Smith, Commissioner
Date: 3/2/87
Agency: Department of Commerce and Economic Development

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

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Alaska State Legislature

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MEMORANDUM

To: House Resources Committee

From: Rep. Mike Davis

Date: February 27, 1987

Re: HR 3; Relating to the export of Alaska oil

The passage of HR 3 would send a message to President Reagan and the U.S. Congress requesting that the prohibition on the foreign export of Alaska oil be lifted. This resolution is the House counterpart to SR 6, which was passed by the Senate earlier this month.

At a time when the state is seeking to increase revenues without adversely impacting individuals or industry, and at a time when the petroleum industry is suffering from a severe downturn in oil prices, allowing the foreign export of North Slope oil would provide a significant degree of financial relief.

Due to the lower cost of shipping Alaska North Slope oil (ANS) to Pacific Rim markets rather than to the Gulf Coast, oil exported overseas would have a higher wellhead value. This would result in greater industry profits, an increased value for the state's royalty oil, and a larger tax base for the Alaska and U.S. treasuries.

The Department of Revenue has estimated that shipping 100,000 barrels of ANS per day to the Far East would generate $48 million in additional general fund and permanent fund revenues if the oil were shipped in Jones Act tankers. Shipping the oil in foreign tankers would generate additional revenues of about $74 million per year.

Cook Inlet oil is presently being exported to Korea under a contract between private parties, and state-owned royalty oil from the west side of Cook Inlet will be exported to Taiwan beginning this summer. A plan for the export of Canadian oil has also come under consideration, in which the oil would be shipped along Alaska's Beaufort Sea coast.

MEMORANDUM

STATE OF ALASKA

Department of Revenue

Petroleum Research Section

January 27, 1987

To: Vincent B. Wright, Chief of Research

From: Charles Logsdon, Petroleum Economist

Subject: Reevaluation of the Revenue Impact of Removing the Ban on ANS Exports

Per your request I have revaluated the revenue potential of allowing the export of ANS crude oil by looking at the impact on severance tax and royalty income. This represents a modest revision of the analysis done July 18, 1986 to reflect more current information on transportation costs and market deliveries. The key assumptions, method, and estimates are as follows.

Assumptions:

1. Alaska would sell 100,000 bbl/day of its royalty oil to Far East purchasers. Current production of ANS is 1,800,000 bbl/day of which Alaska's royalty share is roughly 225,000 bbl/day. Alaska is currently committed to sales of roughly 107,000 bbl/day royalty crude oil on long term contracts. This leaves approximately 118,000 bbl/day available for other disposal.

2. Other North Slope producers would sell an additional [illegible] bbl/day to Far East purchasers. This [illegible] assumption which may be too high or too [illegible].

3. [illegible] purchasers would not [illegible]

2. The transportation cost savings due to avoiding the [illegible] Gulf path would be roughly $1.90/bbl if shipped in Jones Act tankers or $2.95/bbl if shipped in foreign tankers.

3. All exports are assumed to be barrels diverted from the U.S. Gulf and all the cost savings are assumed to translate directly into higher wellhead values. Currently [illegible] or roughly 650,000 bbl [illegible] of the [illegible] marketed in the lower 48 goes to the U.S. [illegible] royalty revenue impacts are prorated on this basis.

4. Although exports to the Far East could have direct effects on the ANS price on the U.S. West Coast, no attempt is made to estimate this impact because of uncertainty over the willingness of major ANS producers to export. Market theory suggests that competition would drive the West Coast price [illegible]. Further analysis would be needed to attempt to estimate this effect.

[illegible]

Increased Royalties = State Royalty [illegible] + [illegible] Royalties + Sales to Instate Refineries at Invoice Prices.

1. State Royalty Direct
   Sales

Jones Act Tankers =	100,000 [illegible] $1.90 x [illegible]
[illegible] =	$27.7 million yr.
Foreign Tankers =	100,000 [illegible] $2.95 x [illegible]
	[illegible] million yr.

[illegible]

3. In-Value Royalties and
Direct Sales at In-value Prices

Jones Act Tankers = 200.000*365*1.90*.125*.222
= [illegible].35 million/yr

Foreign tankers = 200.000*365*2.[illegible]*.125*.222
= [illegible].93 million/yr

Where .125 is the royalty percentage of gross [illegible] production and .222 is the percentage of ANS royalties taken in-value or taken inkind and sold at in-value prices after the 100,000 bls. are sold to Japan adjusted for the amount displaced from the Gulf Coast, i.e. [illegible] 225 [illegible].

4. Increased
Severance Tax

Jones Act Tankers = Taxable bbl * Value * Tax Rate
= 200,000*365*1.90*.12*(1- .125*.222
= [illegible] million/yr

Foreign Tankers = 200,000*365*2.95*.12*(1- .125*.222
= 28.12 million/yr

Where .12 is the tax rate [illegible] ELF kicks in for Prudhoe in July 1987.

<u>Summary:</u>

	State of Alaska Gross Production Revenue Effect	Less State of Alaska Permanent Fund Effect	State of Alaska Net Revenue Effect to General Fund
Jones Act Tankers	$17.77 million [illegible]	[illegible]	[illegible]
[illegible]	[illegible].17 million [illegible]	[illegible]	[illegible]

Canadian firm plans export of Slope oil

By Harry McFarland
Times Business Writer

A Canadian company plans to complete development of an oil reserve in Canada's Beaufort Sea and ship the crude to either Pacific Rim countries or the western United States via an arctic sea route around Alaska.

Gulf Canada Resources Ltd. is proposing that crude from a large oil and gas reserve called Amauligak be shipped seasonally on icebreakers to a point west of Barrow, according to Jim Livingstone, the company's manager of northern affairs.

There the oil would be transferred to ocean-going tankers, which would take the crude to the Asian markets or to the western United States.

"The marketing question hasn't been resolved yet," Livingstone said Tuesday in a telephone interview from Inuvik, a Northwest Territories community on the Canadian Beaufort coast.

While the Canadian company makes plans to export arctic oil, Congress continues to ban the export of Alaska's North Slope oil.

Sen. Frank Murkowski, R-Alaska, has backed the export of some of North Slope oil and has maintained that the United States could receive some $10 billion in benefits by the year 2000 if less than one-third of the Slope's daily production of 1.8 million barrels was exported to countries such as Japan and Korea.

Gulf Canada's shipments from the Beaufort Sea are expected to take place during the period when the arctic icepack pulls back from the North American shore. That would be from approximately early August to late October each year, Livingstone said.

Gulf shipped 318,000 barrels of Beaufort crude to a Japanese mining company last year.

A $120 million two-stage program planned to begin this summer would be the first revival of Beaufort drilling since Gulf Canada and other operators shelved development plans last year when oil prices collapsed. Since then, oil prices have climbed back into the $19-a-barrel range.

The development in the Beaufort Sea would produce about 2.5 million barrels annually starting as soon as 1988.

The second phase would follow in about four years with construction of a crude oil pipeline that could transport at least 100,000 barrels per day down the Mackenzie Valley to Edmonton, Alberta. Once the pipeline is in place, the crude would be sold domestically in Canada.

Further drilling will be completed this year to confirm reserve estimates of 700 million to 800 million barrels of oil, Livingstone said. The formation is believed to contain about half the reserves discovered in the Canadian Beaufort.

Gulf's partners include Husky Oil Ltd. and Norcen Energy Resources Ltd. The company also has discussed possible Canadian government participation in the project.

THE ALASKA OIL EXPORT BAN

SPECIAL INTEREST LEGISLATION THAT HURTS AMERICA

Facts on the export of Alaskan Oil.

.....Alaska is the ONLY state prohibited from exporting petroleum.

.....The United States currently exports 600,000 barrels per day of refined petroleum products, including 10,000 barrels per day to the Soviet Union.

.....Due to the International Energy Agreement the United States MUST export oil to Japan and other participating nations during shortages such as the Arab Oil Embargo. If a shortage were to occur today the U.S. would be required to export 500,000 barrels per day to participating countries.

.....The record 20 billion dollar trade deficit with Japan could be reduced by 2 billion dollars a year by shipping them just 200,000 barrels per day of Alaska's 1.6 million barrel a day production.

.....It costs $4 per barrel more to ship oil from Alaska all the way through the Panama Canal and up to the Gulf Coast than going directly to Japan.

.....For every dollar saved on transportation $.60 goes to the Federal Government, i.e. the American taxpayer. Exporting only 200,000 barrels per day would net the Federal Treasury another $ 175 million per year.

.....Japan, Korea, and Taiwan have all expressed interest in obtaining Alaskan crude to diversify their oil sources and moderate the panic buying in the spot market which results in exorbitant price increases for everyone.

.....The American consumer, the Federal government, and the state of Alaska are all losing because the maritime industry is being subsidized for inefficient service.

.....National security of the United States and our allies would be INCREASED by exporting Alaskan oil.

.....The Alaska oil export ban is special interest legislation that hurts America!

From The Last Frontier
Rep. Terry Martin
State Capitol Pouch V
Juneau, AK 99811

Rep. Terry Martin
State Capitol, Pouch V
Juneau, AK 99811

CURRENT COST OF TRANSPORTATION TO GULF COAST OF ALASKA NORTH SLOPE CRUDE OIL

TRANS ALASKA PIPELINE

ALASKA

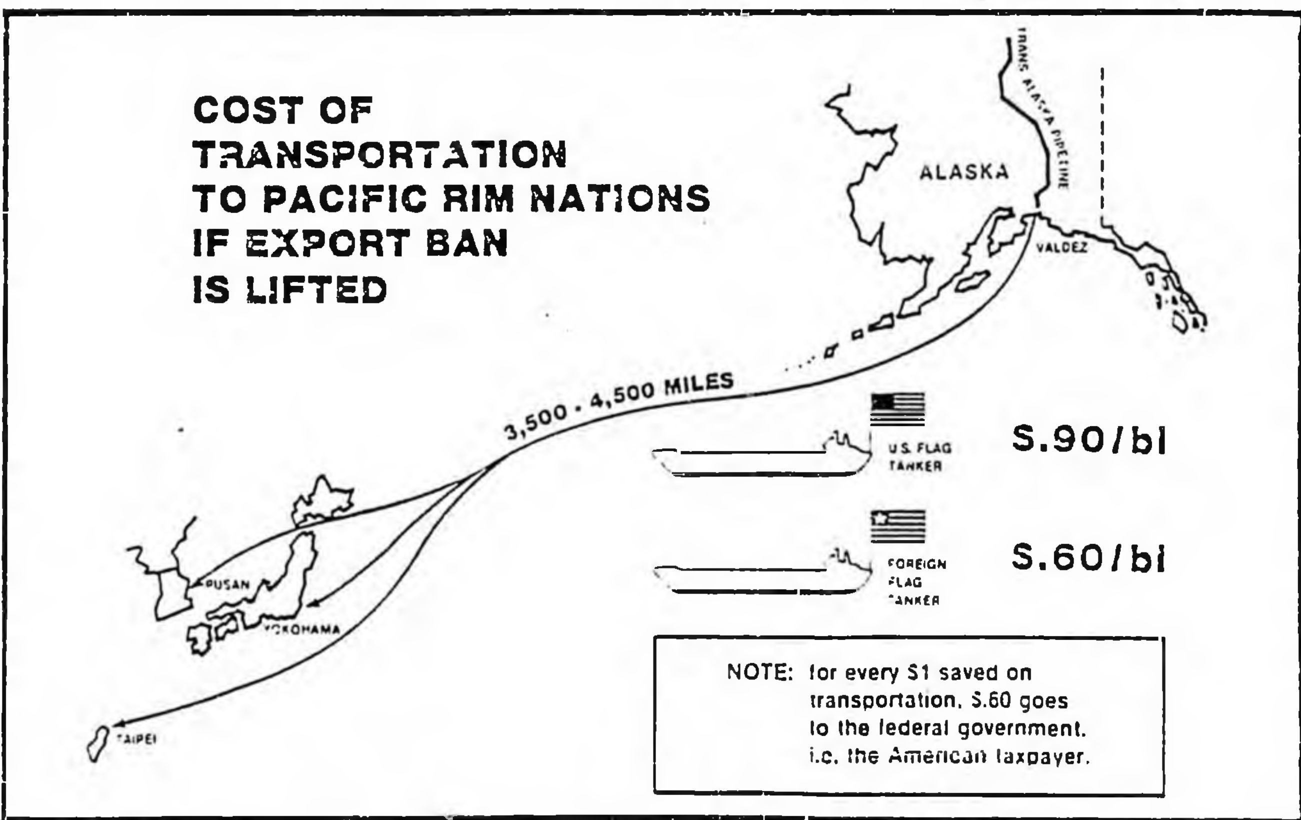
VALDEZ

$4.00/bl
through Trans Panama Pipeline

$4.50-$5.00/bl
through Panama Canal

GALVESTON

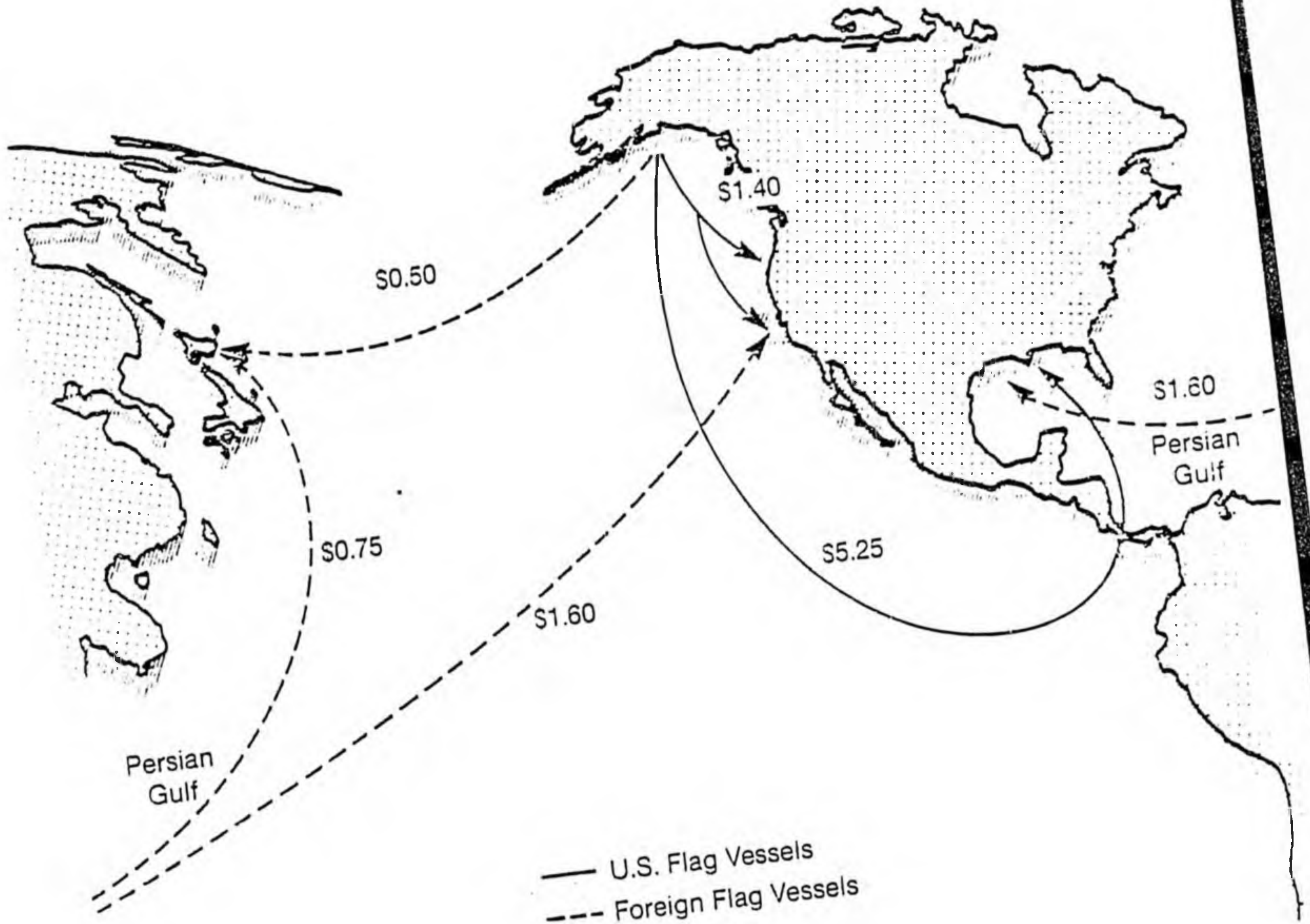
6,500 MILES



Source: U.S. Department of Energy

Note: In some cases, figures have been averaged, as variables include ship size and length of contracts.

Figure 1
1982 SHIPPING RATES
($/Barrel)



SOURCE: Oil industry estimates.

REVIEW & OUTLOOK

Crude Question

When Japan's Prime Minister Yasuhiro Nakasone visits Washington next week, we hope he asks President Reagan when the U.S. is going to get serious about opening the Japanese market to American products. That's right. When is the U.S. going to allow American goods into Japan?

Under the Export Administration Act of 1979, crude oil from the North Slope of Alaska must be sold within the United States. Removing this export prohibition would simplify a Rube Goldberg system of oil transport and reduce the U.S.-Japan trade deficit, perhaps by several billion dollars.

Every day, 1.5 million barrels of crude flow through the Alaska pipeline into tankers at the port of Valdez. From there, 900,000 to one million barrels are transported to West Coast refineries, at a cost of about $1.25 per barrel. Most of the remainder makes an unnecessarily long and expensive trip—by tanker to the West Coast of Panama, through a pipeline or the Panama Canal to Caribbean tankers, and thence to the U.S. Gulf Coast, at a cost of $4.50-$5.50 a barrel.

Without the export prohibition, one would expect much of the Gulf Coast oil to be sold to Asian countries, especially Japan. For one thing, transport costs across the Pacific are about 50 cents a barrel. For another, Japan wants to diversify its oil sources, to reduce its heavy dependency on the Persian Gulf. Meanwhile, it would be advantageous for Gulf Coast refiners to purchase more crude from Mexico and Venezuela (transport costs about $1 per barrel), which incidentally, could use the foreign exchange.

For the U.S., exporting more oil to Asia, importing more from the Caribbean, the balance of payments would be a wash. But trade tensions with Japan could be reduced. The U.S. would have more leverage in asking the Japanese not to underwrite Soviet development of energy resources in Sakhalin. And assuming 500,000 barrels a day of sales to Japan, at a wellhead price of $20, the U.S.-Japan deficit could fall by $3.65 billion.

It isn't clear that Japanese refiners would buy that much, of course. They have long-term contracts with existing suppliers, and their total demand for crude has been declining. Meanwhile, U.S. oil companies will want to recoup the investments they have made—in tanker fleets, the $300 million Panama pipeline—under the assumption that the export ban would continue. But over time, it will make more logistic and economic sense to send Alaskan oil to the Far East than to the Gulf.

The export ban was originally enacted as a result of heavy lobbying by environmentalists who opposed the Alaska pipeline, and wanted to make sure it was built only for reasons of national energy independence. But today, the ban is primarily supported by maritime unions. Oil shipped across the Pacific would go in foreign bottoms; in the U.S. trade, under the Jones Act, cargoes must be carried in overmanned U.S.-flagships with overpaid U.S. seamen.

So perhaps Mr. Nakasone should ask Mr. Reagan whether his trade negotiators will jawbone the U.S. Congress and domestic maritime unions as much as they press against the Japanese government. In keeping the Japanese market closed, both sides are culpable.

U.S. oil export ban involves costs that hurt economy, rein energy search

The U.S. makes too many economic tradeoffs in its ban on crude oil exports outside North America.

The ban, a product of the Trans-Alaska Pipeline Act and adjustments to the Export Administration Act, is grounded in assumptions that no longer are valid. And it creates unnecessary costs that thwart development of new energy supply and clog the economy.

During the hectic environment created by the 1973-74 Arab oil embargo, Congress adopted the view that the U.S. should let none of its own production be sold overseas. At a time when the industrialized world felt doomed to perpetual petroleum shortage, when the strategic importance of crude oil became glaringly apparent, that seemed sensible. But events since then—mainly a dramatic decrease in consumption leading to what appears to be an extended oil surplus that will be magnified by new discoveries off California—have overturned the enduring-shortage scenario.

Strategic considerations of domestic production remain important, but they involve more than concern over where U.S. oil is sold. The export ban has produced economic inefficiencies far more threatening than near term chances for a supply interruption. By allowing exports, the U.S. could correct those inefficiencies and thus promote vital economic growth. It also could spur domestic energy development. And the ban could always be reimposed if these shipments ever posed a threat to energy security.

The export ban mainly affects production from Alaska, natural markets of which are the U.S. West Coast and Asia. The West Coast needs only about one-half the oil shipped from Valdez, so the remainder crosses Panama or circuits South America to reach refiners on the Gulf and East Coasts and in the Caribbean.

Shipment to Asia—probably Japan—in exchange for crude from foreign sources closer to those markets would be cheaper. That's partly because the routes are shorter. Also, the Jones Act requires that cargoes moving between U.S. coasts be shipped in U.S. vessels with U.S. crews, both of which are expensive by international standards. Thus, by proscribing international markets within easy reach of production, the U.S. creates a cost equal to the substantial difference between current shipping charges and what they would be if the less expensive alternative were legal. Ultimately, the cost is borne at the wellhead in the form of lower netbacks for North Slope production.

Depressed wellhead netbacks don't hurt just producers and Alaska. They limit exploration and development and thus reduce additions to U.S. oil reserves, which have much more to do with U.S. energy security than foreign sale of domestic production. Consumers, who have a great stake in energy supply security, therefore share the cost of wellhead netbacks depressed by nonmarket forces.

In fact, the main beneficiaries of the export ban are the ship owners. They enjoy Jones Act protection from foreign competition as well as a guaranteed market, so long as the U.S. closes foreign markets to Alaskan oil. The Heritage Foundation estimates that the Alaskan oil shipping business accounts for one-half of Jones Act traffic. It's not surprising, therefore, that U.S. ship owners and their friends in Congress lead the opposition to changes in laws blocking Alaskan crude exports or in the Jones Act itself.

Other groups could be hurt by an end to the export ban. Export of Alaskan crude might prove more profitable than movement of the oil inland from the West Coast via the proposed Northern Tier pipeline or alternative projects. Likewise, lifting of the export ban might encourage development of a North Slope LNG industry based on trade with Japan. That could doom the proposed gas pipeline from Alaska to the Lower 48. The Northern Tier oil pipeline and Alaskan gas line are major projects that would do much to facilitate U.S. energy transportation. But, if and when they are built, their economics shouldn't hinge on government market restrictions.

An end to the export ban might not trigger immediate exports to Japan because most North Slope producers already are committed to transportation arrangements linking U.S. markets. But it would encourage development of new petroleum supplies by opening market opportunities now closed by legalities that no longer serve U.S. economic or security objectives.

Maritime Industry Winning the Debate Over Exporting Alaska Oil to Japan

Critics of an exporting ban say its removal would help taxpayers and consumers. But Congress appears more responsive to U.S. tankers dependent on captive Alaska oil.

BY LAWRENCE MOSHER

After almost a year of discussion and debate, Congress appears ready to continue the 10-year-old ban on exports of Alaska oil to Japan that was adopted during the height of the past decade's energy crisis.

To supporters of the ban, that outcome bodes well for national defense, for energy security and for the domestic consumer.

To its critics, it is a continuing blow to the Treasury and a deep bow to a maritime industry that depends on the captive Alaska oil trade, which by law is reserved to U.S.-flag tankers.

Even this country's trade disputes with Japan have been cited to press the point that Alaska's oil should stay at home.

The Japanese "obfuscate everything we try to do with every kind of phony barrier," Rep. Stewart B. McKinney, R-Conn., complained at an April hearing. "Maybe someone will now wake up downtown and realize we are not playing by the Marquess of Queensbury's rules."

On the other side of the argument, Marshall Hoyler, a research fellow at the Logistics Management Institute, called the ban "a scandal." In a new study for the Georgetown University Center for Strategic and International Studies, Hoyler calculated that federal revenues would jump $10 billion over the next quarter-century if the Alaska oil export ban were lifted.

"People have to get beyond the energy security non-issue," he said in an interview. "They think it's a bad idea to ship oil to the Japanese, who have been beating us economically. What they don't realize is that the Japanese won't benefit financially; they'll still have to pay world prices. It's the maritime industry that will suffer. Japan will not be getting a break at our expense."

Both sides of the debate appear to share the assumption that U.S. tankers cannot compete with ships flying under other flags in the world shipping trade.

Critics of the ban think that allowing Alaska oil to be shipped to Japan at competitive transportation prices would ultimately reduce the worldwide price of oil, to the benefit of U.S. as well as other consumers. They say it would cost only 60 cents a barrel to ship oil from Valdez, Alaska, to Japan and other Far Eastern markets, compared with $4.50 a barrel to transport the same oil to the U.S. Gulf Coast in American ships.

But McKinney, along with Rep. Howard Wolpe, D-Mich., and other supporters of the export ban say that allowing Alaska's oil to be sold in Asia would drive up the price of oil products in this country by an estimated $1.5 billion a year. This is based on a questionable assumption that the replacement oil for the exported Alaska oil would cost more: a delivered price of about $29 a barrel for the imported oil and about $26 for oil from Alaska.

TO BAN OR NOT TO BAN

Sen. Frank J. Murkowski, R-Alaska, held hearings on the ban on July 19-20 before the Foreign Relations Subcommittee on East Asian and Pacific Affairs, which he heads. Murkowski is pressing for a partial relaxation of the prohibition that would allow some of his state's oil to be exported but require that it be carried on U.S.-flag tankers.

"The question is whether or not now is the time to allow prevailing market forces to dictate the distribution of Alaska oil," he said. "Is it fair that Alaska is the only state in the nation that has such severe restrictions on exporting oil?"

Alaska produces about 1.7 million barrels a day, or 11 per cent of the nation's annual oil consumption. Half is shipped to the West Coast and half ends up at refineries on the Gulf Coast, Puerto Rico, the Virgin Islands and the East Coast. Murkowski's amendment would allow up to 200,000 barrels a day to be exported.

During Murkowski's hearings and those held by the Senate Banking, Housing and Urban Affairs Committee and the House Foreign Affairs Subcommittee on International Economic Policy and Trade, lobbyists favoring the ban overwhelmed its critics. The imbalance in the testimony was so apparent that Don Bonker, D-Wash., chairman of the House Foreign Affairs panel, felt obliged to apologize for the "lopsided" hearing he held on April 12.

"The effort to remove the ban went nowhere," said Paul Freedenberg, a staff economist for the Senate Banking panel. "Nobody was particularly interested in making a change. Too many people are making money because of the way it is now."

Energy analyst Adam E. Sieminski, vice president of Washington Analysis Corp., described the "non-debate" on the ban as a good example of where the political process has "not operated very efficiently."

"In general, almost everyone would be better off if the oil could be sold to Japan," Sieminski said in an interview. "But those who would benefit—the taxpayers—are not easily identifiable, while those who would be hurt—the maritime industry—are. So who wants to tangle with that?"

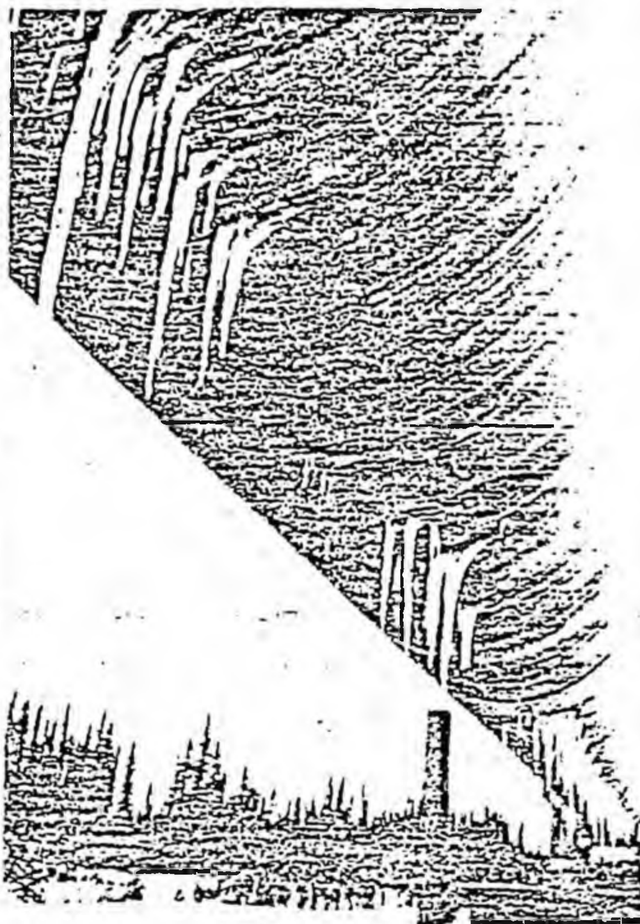
The answer, it seems, is hardly anyone. The Reagan Administration has been noticeably ambivalent over the issue. Behind the scenes, the Defense, Interior and Transportation Departments have argued to retain the ban, while the Energy and State Departments and U.S. Trade Representative Bill Brock have argued to remove it.

For the record, William T. Archery, deputy assistant Commerce secretary for trade administration, told Bonker's panel that while the Administration wanted to remove the ban, it had not "made a decision to export Alaskan oil to Japan or any other country."

Snorted Wolpe, "That is disingenuous." Wolpe has cosponsored a bill (HR 1197) with McKinney to make the ban permanent.

The Administration's fear that the ban might be made permanent, in fact, is a major reason that those who oppose the ban have trodden so softly on Capitol Hill. "The ban benefits a small group with a lot of political clout," said an Administration official. "On the other hand, it is causing a number of economic distortions that are hurting everyone."

The ban's legislative origins are in the 1969 Export Administration Act, which gave the President the authority to deny exports of scarce domestic natural resources. But it was the 1973 statute authorizing the Trans-Alaska Pipeline from Prudhoe Bay to Valdez on the Gulf of Alaska that actually forbade the export of Alaska oil.



Congress initially forbade the export of Alaska oil in the 1973 statute that authorized the construction of the Trans-Alaska pipeline from Prudhoe Bay to Valdez on the Gulf of Alaska.

That law, as well as subsequent amendments to the Export Administration Act in 1977 and 1979, restricted Alaska oil to domestic consumption unless the President could show that the exports were in the national interest and Congress concurred in a joint resolution. The 1977 and 1979 laws also required a showing that such exports should benefit the consumer within three months.

The prevailing national concern then was energy security, growing out of the oil crisis of 1973-74, which triggered the first world oil price shock when the price for oil sold by the Organization of Petroleum Exporting Countries (OPEC) jumped from $3.39 a barrel to $11.28.

Along with other supporters of the ban, McKinney and Wolpe also contend that removing it would, in McKinney's words, "dry-dock nearly half the U.S. tanker fleet and idle 20,000 workers" in the shipping industry and related jobs. In addition, they say, the Treasury would lose at least $300 million through loan defaults by shipowners.

The ban's critics counter that only 1,520 full-time maritime jobs would be lost and that the federal government could buy all 26 laid-up tankers for $200 million.

The maritime unions obviously would suffer job losses if Alaska oil could be freely shipped to Japan. U.S.-flag tankers currently monopolize the transportation of Alaska crude oil to West Coast and Gulf ports under the 1920 Merchant Marine Act (also called the Jones Act), which limits coastal shipping to U.S.-built, U.S.-manned vessels. *(See 4/16/83, p. 793.)*

The transportation costs saved by allowing the more efficient marketing of Alaska oil, on the other hand, is one of the reasons why critics of the export ban say it should now be removed.

The cost differential has allowed the ban to "enrich a small number of individuals and corporations, who have formed a vocal interest group in its behalf," according to Hoyler. In his study, "The Politics and Economics of Alaskan Exports," Hoyler uses Transportation Department data to show that American seamen's wages are three times higher than those paid in other industrialized countries and six times higher than those paid by less developed countries.

An American second mate, for example, earns $60,550 for six months of work, compared with $17,500 in wages and benefits paid to Western European second mates. Most American sailors work only half a year, which makes the role of the maritime unions primarily that of rationing highly sought-after jobs.

Hoyler noted that the export ban helped to revive "a shrinking U.S. tanker industry" that had been losing business following the Vietnam war. And, as the pro-ban lobby grew richer and more powerful, it prevailed on Congress to add more restrictions on Alaska oil, such as a requirement that the President show that exporting the oil would lower oil prices in the United States within three months.

American consumers would benefit from lifting the export ban, its critics argue, but this long-term effect would take longer than three months to realize. This is because the price efficiency gains from allowing the export of Alaska oil would take five to eight years to generate new Arctic oil production, which in turn would act to lower world oil prices.

Hoyler, Sieminski and Energy Department officials contend that the ban's supporters either do not understand how world oil prices are set or prefer to obfuscate the issue. To them, the contention that American consumers would pay more for gasoline if Alaska sent its oil to Japan is more rhetoric than fact.

The "marker price" for all oil is set by the price of Saudi Arabian oil plus the transportation costs to a particular port. This price, in turn, is influenced by the supply of oil from non-OPEC sources such as Britain and Mexico. Differences in quality (weight and sulfur content) are also noted.

In his study, Hoyler compares the spot price of Alaska oil to Mexican oil on the Gulf Coast from February 1981 to September 1982. During this period, the Mexican price dropped from $37.23 a barrel to $28.56, while the price of Alaska oil dropped from $37 to $32.36.

After adjusting for their quality difference (on which basis Alaska oil is worth about $1 a barrel more because it is easier to refine), this meant that during that 21-month period, the price of Alaska oil shifted from $1.23 cheaper to $3.30 more

expensive than Mexican oil. Thus Gulf Coast refiners could have saved money by buying the closer Mexican oil.

AT THE WELLHEAD

The one area where some consumers might not benefit from lifting the ban is the West Coast, where the Atlantic Richfield Co. is out-selling its rivals by "discounting" the price of its Alaska oil to its own refineries. Much of Arco's ability to do this, its critics contend, stems from the company's tax accounting process, which is now under investigation by the Internal Revenue Service.

Sen. Frank J. Murkowski, R-Alaska, is pushing to allow some of his state's oil to be exported to Japan if it is transported by U.S.-flag tankers.

Rep. Howard Wolpe, D-Mich. (left), says exports of Alaska oil would cost U.S. consumers about $1.5 billion a year.

The Arco case, regardless of who is right, offers a good example of the way oil price arguments can become slippery. Computing the price of oil, it seems, often depends on who is doing the calculating.

OPEC has acted as a cartel to set the world price politically. But increased oil production by non-OPEC countries, conservation practices and a recession have forced OPEC to drop its price to below $30 a barrel.

Alaska oil, on the other hand, is costlier to produce than Persian Gulf crude, and its quality is poorer. But its wellhead price is about $20 a barrel, a price that bears no real relation to cost.

Arco, for example, computes its Alaska North Slope wellhead price by starting with the price of equivalent "West Texas Sour" crude oil and then deducting tanker and pipeline transportation costs. If West Texas Sour sells for $30 a barrel (its 1982 average was $30.74), then Arco's wellhead price is that less $4.50-a-barrel shipping costs from Valdez to Houston and $6-a-barrel pipeline costs from Prudhoe Bay to Valdez, or $19.50 a barrel.

What bothers the IRS is that Arco uses this artificially low wellhead price to calculate all its taxes for its Alaska oil, although 80 per cent of that oil goes to the West Coast, where its transportation costs are only $1.50 a barrel. Thus Arco writes off an additional $3 of shipping costs for most of its Alaska oil.

This accounting procedure allows Arco to pay lower federal "windfall profits" taxes, federal income taxes and Alaska income and severance taxes and royalties. All of these taxes are calculated on the basis of wellhead prices in Alaska.

The consequences of this pricing system are twofold. One is that it allows Arco to "discount" the cost of its oil to its own refiners and thus undercut its competitors on the West Coast. The other is that it motivates Arco to prefer paying the higher shipping costs to the West Coast and the Persian Gulf rather than selling its North Slope oil to such East Asian markets as Japan at a higher wellhead price.

"Because a sale to the Japanese at Valdez would create a real transfer price," argued Jack A. Blum, a Washington lobbyist for the Independent Gasoline Marketers Council, "it would significantly raise Arco's windfall profits tax payments. The irony of this situation is that even though the Japanese would pay more for the crude at Valdez than the companies now make on product, because of the way they do their tax calculations their net profit would be lower."

Arco's president, James S. Morrison, denied this assessment to the House Energy and Commerce Subcommittee on Oversight and Investigations last Feb. 23, calling it "farfetched." Yet Arco continues to support the export ban, unlike Standard Oil Co. (Ohio), another major Alaska producer, which now has called for its lifting.

"There is no perfect answer," Sieminski said. "But in general, everyone would be better off if the oil could be sold to Japan because they would pay more for it. Only the maritime unions would be hurt."

Critics of the ban, however, have a harder time dismissing the energy security issue. If foreign oil supplies were again disrupted, the idea of export- U.S. oil makes little sense he ban's supporters, which ude such groups as the National Farmers Organization and the American Public Power Association.

Charles L. Frazier, director of the farmers' Washington office, said his organization is still "bitter" over the past oil price increases. Thus his group favors "retaining control" of Alaska oil.

To experts such as Hoyler, however, the United States will remain just as vulnerable to another oil crisis even if the Alaska oil export ban is kept. Hoyler argues that regardless of this count 's desire to be energy independent, it is still part of the world oil market and will remain so. When oil supplies are disrupted, Hoyler maintained, "the price of oil goes up everywhere."

In the long run, he contends, permitting the export of Alaska oil would actually improve this country's energy security by increasing the world oil supply from a politically stable area. Thus when another supply disruption occurred, there would be less need by such consumers as Japan to panic and bid up the price, which is what happened in 1973-74 and again in 1979.

The Administration agrees, but its spokesmen are still muffling their views. In an interview, however, William J. Silvey, the Energy Department's associate director for planning and analysis, went this far:

"The congressional perception does not yet appreciate the fact that there is one world petroleum market and that we are part of it. By keeping the Alaska oil export ban, we are just charging ourselves more than we need to. Only the windfall this time is going to the shipping industry instead of the oil companies." □

The Washington Times — MONDAY, FEBRUARY 14, 19[illegible]

CORD MEYER

Selling Alaskan oil to Japan

It never made any economic sense for Americans to ship 600,000 barrels a day of Alaskan surplus oil through the Panama Canal to our Gulf ports at a transportation cost of $5 a barrel, when the short haul from Alaska to Japan costs less than half as much. The Japanese are only slightly less anxious to buy our oil than the Mexicans are eager to sell to our Gulf Coast refineries, with large savings on transportation at both ends of the swap.

It makes even less strategic sense to push the Japanese into greater dependence on Russian oil and gas as they seek to escape reliance on the Persian Gulf for 70 percent of their oil. Geopolitics and economics now combine to give the Reagan administration a powerful incentive to remove the legislative ban that since 1974 has prohibited the sale abroad of Alaskan oil.

Encouraged by National Security Adviser William Clark and his able staff, President Reagan now has clearly signaled his willingness to see changes in the current law. One of the least-noticed but important results of Reagan's meeting with Japanese Prime Minister Yasuhiro Nakasone was the agreement to set up a joint working group on energy to explore opportunities for cooperation.

Although the membership and terms of reference still are being negotiated, high on the agenda will be Alaskan oil. To avoid the error of the Carter administration in waiting too long before cooperating with Europeans to prevent their growing dependence on Soviet natural gas, this working group is seen as a framework to permit effective joint action before the Japanese become hooked on Russian energy sources. A Japanese consortium, for example, is on the threshold of a $3 billion to $4 billion commitment to the development with the Soviets of the Sakhalin reserves.

In the palmy days of Alexander Haig, the fact that this initiative originated in the NSC staff would have been enough to ensure State Department opposition. But Secretary of State George Shultz has proved receptive.

During his Tokyo trip, Shultz made the point that a very large reduction in the U.S. trade deficit with Japan would be achieved by exporting Alaskan oil. But he realistically warned that negotiating with Congress for changes in the law would be complicated.

In fact, Jimmy Carter, as president, made an abortive attempt to lift the ban on the export of Alaskan oil, only to be discouraged by the organized opposition of the maritime unions. Whether these powerful forces can be won over or overridden in this more urgent situation depends on the administration's ability to take its strong case to the public.

The opposition of the maritime unions derives from the fact that the law now requires that all U.S. coastal trade be carried in American ships with highly paid American crews. Since the Alaskan oil cannot be exported, its shipment along the West Coast and through the Panama Canal guarantees jobs to the unions. More than 2,500 union jobs have come to depend on this protected trade.

Recognizing the political clout of the unions, American Ambassador to Japan Mike Mansfield made a significant speech in Tokyo in December. He revealed that he had indications from the Japanese private sector that importers would agree to having a substantial part of the Alaskan oil transported in American ships even though this would add to the cost.

Another development that makes it easier than before to argue for allowing some export of Alaskan oil is the discovery of vast new oil fields off the California coast and the prediction of huge new reserves still to be found in Alaska.

Under these circumstances, some of the big oil companies that had invested heavily in a pipeline across Panama are no longer supporting the ban on oil exportation to protect this investment. They are shifting their position as Japan becomes more important as a potential buyer of the growing surplus.

Similarly, the world oil glut has reduced the relevance of the argument that we must keep every drop of oil at home. The Japanese may be prepared to spend substantial investment capital on discovery and development of new reserves in Alaska. It may well be that with this kind of joint cooperation more oil will be discovered and brought on line than is actually sold to the Japanese.

M E M O R A N D U M

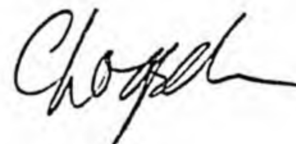
STATE OF ALASKA

Department of Revenue

Petroleum Research Section

January 27, 1987

To: Vincent B. Wright, Chief of Research

From: Charles Logsdon, Petroleum Economist 

Subject: Reevaluation of the Revenue Impact of Removing the Ban on ANS Exports

Per your request I have revaluated the revenue potential of allowing the export of ANS crude oil by looking at the impact on severance tax and royalty income. This represents a modest revision of the analysis done July 18, 1986 to reflect more current information on transportation costs and market deliveries. The key assumptions, method, and estimates are as follows.

Assumptions:

1. Alaska would sell 100,000 bbl/day of its royalty oil to Far East purchasers. Current production of ANS is 1,800,000 bbl/day of which Alaska's royalty share is roughly 225,000 bbl/day. Alaska is currently committed to sales of roughly 107,000 bbl/day royalty crude oil on long term contract. This leaves approximately 118,000 bbl/day available for other disposal.

2. Other Alaska producers would sell an additional 200,000 bbl/day to Far East purchasers. This is an arbitrary assumption which may be too high or too low.

3. The price paid by Far East purchasers would not be substantially different than what would have been received if the oil were sold on the U.S. Gulf.

4. The transportation cost savings due to avoiding the U.S. Gulf haul would be roughly $1.90/bbl if shipped in Jones Act tankers or $2.95/bbl if shipped in foreign tankers.

5. All exports are assumed to be barrels diverted from the U.S. Gulf and all the cost savings are assumed to translate directly into higher wellhead values. Currently 40% or roughly 650,000 bbl/day of the ANS marketed in the lower 48 goes to the U.S. Gulf. All royalty revenue impacts are prorated on this basis.

6. Although exports to the Far East could have direct effects on the ANS price on the U.S. West Coast, no attempt is made to estimate this impact because of uncertainty over the willingness of major ANS producers to export. Market theory suggests that competition would drive the West Coast price up. Further analysis would be needed to attempt to estimate this effect.

Method:

1. Increased Royalties = State Royalty Direct Sales + In-value Royalties - Sales to Instate Refineries at Invalue Prices.

2. State Royalty Direct Sales

   Jones Act Tankers = 100,000*365*1.90*.4
   = $27.74 million/yr.

   Foreign Tankers = 100,000*365*2.95*.4
   = $43.07 million/yr

   Where .4 is the proportion of total royalties diverted from the Gulf Coast now earning higher wellhead value

3. In-Value Royalties and
Direct Sales at In-value Prices

Jones Act Tankers = 200.000*365*1.90*.125*.222
= $[illegible].45 million/yr

Foreign Tankers = 200.000*365*2.[illegible]*.125*.222
= $5.98 million/yr

Where .125 is the royalty percentage of gross ANS production and .222 is the percentage of ANS royalties taken in-value or taken inkind and sold at in-value prices after the 100.000 bbls. are sold to Japan adjusted for the amount displaced from the Gulf Coast, i.e. 1-100 225 [illegible]

4. Increased
Severance Tax

Jones Act Tankers = Taxable bbl * Value * Tax Rate
= 200.000*365*1.90*.12*(1-(.125*.222))
= $16.1[illegible] million/yr

Foreign Tankers = 200.000*365*2.95*.12*(1-(.125*.222))
= $[illegible]5.12 million/yr

Where .12 is the tax rate after ELF kicks in for Prudhoe in July 1987.

Summary:

	State of Alaska Gross Production Revenue Effect	Less State of Alaska Permanent Fund Effect	State of Alaska Net Revenue Effect to General Fund
Jones Act Tankers	$47.77 million/yr	$7.8[illegible] million/yr	$[illegible]9.88 million/yr
Foreign Tankers	$71.17 million/yr	$[illegible].26 million/yr	$[illegible]1.81 million/yr

Introduced: 2/25/87
Referred: Resources

5-0702A

Legisla

Arco - no
Exxon - 1/2
Sohio - neutral

6 yr deal
four corners pipeline

1 IN THE HOUSE BY DAVIS AND KOPONEN

2 HOUSE RESOLUTION NO. 3

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 Relating to the export of Alaska oil.

6 BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:

7 WHEREAS the foreign export of Alaska North Slope crude oil would
8 provide an incentive for further domestic oil exploration and development;
9 and

10 WHEREAS further oil exploration and development would enhance the
11 nation's energy and economic security; and

12 WHEREAS the petroleum industry is presently experiencing severe
13 economic difficulties; and

14 WHEREAS Japan, Korea, and Taiwan have expressed an interest in
15 purchasing Alaska North Slope crude oil to diversify their energy sources;
16 and

17 WHEREAS the export of Alaska North Slope crude oil would decrease the
18 federal trade deficit with these nations; and

19 WHEREAS a Taiwanese company will take first delivery of Alaska Cook
20 Inlet royalty oil in 1987 under an oil export license issued by the U.S.
21 Department of Commerce; and

22 WHEREAS a Korean company has already begun taking delivery of Alaska
23 Cook Inlet oil; and

24 WHEREAS it is far more costly to ship Alaska North Slope crude oil
25 through the Panama Canal and to the Gulf Coast than to ship the oil
26 directly to the Pacific Rim; and

27 WHEREAS under the International Energy Agreement, the United States is
28 required to export crude oil to participating nations in the event of a
29 worldwide disruption of oil supplies;

1 BE IT RESOLVED that the House of Representatives respectfully requests
2 the United States Congress to enact laws providing for the export of Alaska
3 crude oil, regardless of the oil's point of production within the state;
4 and be it

5 FURTHER RESOLVED that the Alaska congressional delegation is urged to
6 continue using its best efforts to obtain passage of legislation permitting
7 the foreign export of Alaska crude oil, regardless of the oil's point of
8 production within the state.

9 COPIES of this resolution shall be sent to the Honorable Ronald
10 Reagan, President of the United States; the Honorable George Bush,
11 Vice-President of the United States and President of the U.S. Senate; the
12 Honorable Jim Wright, Speaker of the U.S. House of Representatives; the
13 Honorable Robert Byrd, Majority Leader of the U.S. Senate; and to the
14 Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and
15 the Honorable Don Young, U.S. Representative, members of the Alaska delega-
16 tion in Congress.

recent activity
[illegible]
company support
strategy

recent changes export act.
Pres. auth. ex. of Cook inlet
House [illegible] bill - contains prohibits