

HJR

8

FISCAL NOTE

REQUEST: _____

Revision Date: 4/4/89
Title: Removal of Export Ban on Alaska Oil

Agency Affected: Department of Revenue
BRU: Oil and Gas Audit

Sponsor: Rep. Davis, Koponen, Navarre
Requestor: Resources Committee

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
OPERATING						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LANDS & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	\$35 to \$250 Million					

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: The above numbers reflect the savings in transportation costs and thus the gain to the state. The number range assumes upward movement in West Coast prices due to competitive factors.

Prepared By: Chuck Logsdon
Division: Oil and Gas Audit Division

Phone: 277-5627
Date: 4/4/89

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue

Date: 4/6/89

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

Analysis of SCS HJR 8

Removal of the export ban on ANS (Alaska North Slope) crude oil would have a significant impact on State severance tax and royalties through the enhancement of the value of our oil resource. The increased value would derive from two sources: 1. reduction of the transportation costs of moving our oil to market and 2. bringing the price of ANS sold on the West Coast up to world market levels.

It is not clear what the exact transport cost savings would be since the oil might or might not be eligible to be moved in foreign tankers. It is also not clear how close to the world market price the West Coast would be given the concentration of buyers (refiners) in this market and the integrated nature of the West Coast ANS producer/refiner network. In the long run it is clear however, that competitive forces should raise the price of ANS above its current level.

At a minimum we anticipate the State could realize an additional \$35 million per year in revenue assuming Jones Act tankers move the oil to the Pacific Rim importers and assuming this sale has no effect on the West Coast price. Allowing the price assumption on the West Coast to approach parity with the Gulf Coast price and allowing export in foreign tankers raises an additional \$250 million per year, although as production on the North Slope declines the potential for higher revenues also declines.

ARTPA

ARLON R. TUSSING & ASSOCIATES, INC.
1001 Fourth Avenue • Suite 4730 • Seattle, Washington 98154 • (206) 447-0321

February 23, 1989

Senator Bettye Fahrenkamp
Alaska State Senate
P. O. Box V, Room 125
Juneau, Alaska 99810

FEB 28 1989

Dear Bettye:

I am writing with some further reflections on the seeming conflict between the campaigns for ANWR leasing and for repealing the ban on exporting Alaska oil. There is no logical policy contradiction between the two issues. I am convinced, moreover, that no damaging connection exists between them in the minds of most members of Congress, which could not be quickly undone. A genuine conflict does nevertheless exist for the Governor's representative in Washington and the Alaska Congressional Delegation. Messrs. Stevens, Murkowski and Katz are simply hostages to various alliances they have built and commitments they have made for the sake of the ANWR legislation. The dilemma they face with regard to exports was pointed up most sharply by John Katz' remark in last week's hearing that "the maritime unions are the only labor organizations supporting ANWR development at this time." I am sure that Mr. Katz was sincere in protesting that a high-profile campaign on the export issue by Stevens, Murkowski and himself at this time would damage their already narrow and fragile ANWR coalition.

The other side of this situation, however, is that a single-minded commitment on the part of the delegation and the State's Washington office, to ANWR and the narrow coalition built around that issue, has been politically costly to Alaska on other matters before Congress, including but not limited to oil exports. On the export question specifically, the most critical force for the State to mobilize in Congress is probably the large delegation from California, which shares a similar fiscal interest to Alaska's, and whose members have great clout on the resources, trade, and budget committees. Because of the environmental politics in California, however, it is unlikely that many of these members could ever support ANWR development openly. This is particularly true of House Democrats from coastal districts, whose active support is absolutely essential on the export question.

Just as the politics of their ANWR campaign effectively prevents the Delegation and Mr. Katz from mounting any aggressive or high-profile campaign on exports, the same politics would also tend to undermine the effectiveness of any pro-export campaign they might try to launch in the near future. The people in Congress whose support and,

indeed, leadership Alaska needs most on exports are exactly those who have been cast as the State's worst enemies with respect to ANWR.

This situation suggests that it might be in order for Alaska to review its national political priorities, on the basis of both the relative prospects of success and the expected benefits from such a success, in the respective campaigns. Even assuming that the present priority for ANWR development can not be questioned, however, you might consider two propositions that I would be happy to elaborate further whenever it is appropriate:

1. The most important tasks to be undertaken now are not high-profile actions by the Delegation or the Washington office. They involve liaison with, and developing a common position with, California State agencies; mobilization of other potential allies in the Lower 48; and middle-level contacts and technical assistance at OMB, the Treasury, and the Energy Department.
2. It is essential there be a responsible strategic and advocacy center for such a campaign, funded by and housed in State Government. It need not, however, be located in Washington or operate through the Governor's representative in Washington. The Legislature could establish such a center responsible to it, and fund its own Washington representative devoted exclusively to this issue, quite independent of Mr. Katz.

Such a two-track strategy would have to be pursued with the explicit agreement of the Administration, however, and the Governor would have to designate some agency or official (again independent of the Washington office) to take the lead for the Administration on the export issue. This kind of two-track approach was, incidentally, Governor Hammond's explicit policy in the mid-1970's when a division of labor existed under which the Legislature took the lead on exports and the other petroleum policy issues, while the Administration took responsibility for the d(2) question. The Commissioner of Natural Resources is probably the logical lead individual for the Governor to designate. Lennie was, incidentally, deeply involved on behalf of Commissioner Martin in the joint Alaska-California efforts on the export question in the 1970's.

Very truly yours,



Arlon R. Tussing

cc: Representative Mike Davis
Bob Clarke
Sam Van Vactor

Original sponsors: M.Davis, Koponen,
Navarre, et al.

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 SENATE CS FOR HOUSE JOINT RESOLUTION NO. 8 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 Relating to the export of Alaska oil.

6 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

7 WHEREAS the higher transportation cost associated with shipping Alaska
8 North Slope crude oil through the Panama Canal to the Gulf Coast states
9 reduces the wellhead price of the oil; and

10 WHEREAS lower wellhead prices raise the economic threshold for explor-
11 ing for and producing all North Slope oil and, as a result, production from
12 certain existing and newly discovered oil fields is currently uneconomic;
13 and

14 WHEREAS domestic exploration and development of newly discovered oil
15 reserves will enhance the nation's energy and economic security; and

16 WHEREAS the foreign export of Alaska North Slope crude oil will pro-
17 vide an incentive for further domestic oil exploration and development; and

18 WHEREAS new discoveries and production resulting from increased
19 domestic exploration will facilitate the development of infrastructure and
20 production facilities needed to produce currently uneconomic North Slope
21 reserves and, thus, lower the average development costs of all North Slope
22 production; and

23 WHEREAS exporting oil to Pacific Rim nations will decrease the sub-
24 stantial trade deficit with nations that have expressed a strong interest
25 in purchasing Alaskan-produced oil, as evidenced by the sale under a United
26 States Department of Commerce export license of Alaska Cook Inlet oil to a
27 Taiwanese company; and

28 WHEREAS, Canada, Mexico, and Venezuela, among other neighboring coun-
29 tries in this hemisphere, may provide stable, secure exports of crude oil

1 to the United States at more competitive prices than North Slope crude oil
2 because of the transportation savings; and

3 WHEREAS the additional cost of shipping Alaskan North Slope crude oil
4 to the Gulf Coast and eastern states imposes an unnecessary burden on those
5 states, reduces federal and state tax revenue, reduces state royalties, and
6 discourages exploration and development of North Slope reserves;

7 BE IT RESOLVED that the Alaska State Legislature respectfully requests
8 the United States Congress to enact laws providing for the export of Alaska
9 crude oil, regardless of the oil's point of production in the state, on a
10 barrel-for-barrel basis for oil imported from other countries in this
11 hemisphere, under terms that afford enhanced economic benefits for the
12 nation without diminishing domestic security or reducing crude oil avail-
13 able for domestic purposes; and be it

14 FURTHER RESOLVED that the Alaska Congressional delegation and the
15 Governor are urged to continue using their best efforts to obtain passage
16 of legislation permitting the export of Alaska crude oil, regardless of the
17 oil's point of production within the state.

18 COPIES of this resolution shall be sent to the Honorable George Bush,
19 President of the United States; the Honorable Dan Quayle, Vice-President of
20 the United States and President of the U.S. Senate; the Honorable Jim
21 Wright, Speaker of the U.S. House of Representatives; the Honorable George
22 Mitchell, Majority Leader of the U.S. Senate; and to the Honorable Ted
23 Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable
24 Don Young, U.S. Representative, members of the Alaska delegation in Con-
25 gress.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS, the higher transportation cost associated with shipping Alaska North Slope crude oil through the Panama Canal to the Gulf Coast states reduces the wellhead price of the oil; and

WHEREAS, lower wellhead prices raise the economic threshold for exploring for and producing all North Slope oil, and as a result, production from certain existing and newly discovered oil fields is currently uneconomic; and

WHEREAS, domestic exploration and development of newly discovered oil reserves will enhance the nation's energy and economic security; and

WHEREAS, the foreign export of Alaska North Slope crude oil will provide an incentive for further domestic oil exploration and development; and

WHEREAS, any new discoveries and production resulting from increased domestic exploration will facilitate the development of infrastructure and production facilities needed to produce currently uneconomic North Slope reserves, and, thus, lower the average development costs of all North Slope production; and

WHEREAS, exporting oil to Pacific Rim nations will decrease the substantial trade deficit with these nations, which have expressed a strong interest in purchasing Alaskan-produced oil, as evidenced by the sale under a U.S. Department of Commerce export license of Alaska Cook Inlet oil to a Taiwanese company; and

WHEREAS, Canada, Mexico, and Venezuela, among other neighboring countries in this hemisphere, may provide stable, secure exports of crude oil to the United States at more competitive prices than North Slope crude oil because of the transportation savings; and

WHEREAS, the additional costs of shipping Alaskan North Slope crude oil to the Gulf Coast and eastern states imposes an unnecessary burden on those states, reduces federal and State tax revenues, and reduces State royalties and discourages exploration and development of North Slope reserves; and

BE IT RESOLVED that the Alaska State Legislature respectfully requests the United States Congress to enact laws providing for the export of Alaska crude oil, regardless of the oil's point of production in the State, on a barrel for barrel basis for oil imported from other countries in this hemisphere under terms which afford enhanced economic benefits for the State.

FURTHER RESOLVED that the Alaska Congressional delegation and the Governor are urged to continue using their best efforts to obtain passage of legislation permitting the export of Alaska crude oil, regardless of the oil's point of production in the State.

COPIES of this resolution shall be sent to the Honorable George Bush, President of the United States; the Honorable Dan Quayle, Vice President of the United States and President of the U.S. Senate; the Honorable Jim Wright, Speaker of the U.S. House of Representatives, the Honorable George Mitchell, Majority Leader of the U.S. Senate; and the the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.



Alaska State Legislature

Representative Mike Davis

District 19

P.O. Box V
Juneau, Alaska 99811
(907) 465-4930/4941

Interim Office
P.O. Box 81435
Fairbanks, Alaska 99708
(907) 456-8161

To: Senate Resources Committee

From: Rep. Mike Davis

Date: March 15, 1989

Re: HJR 8; Relating to the Export of North Slope Oil

The passage of HJR 8 would send a message to President Bush and the U.S. Congress that the prohibition on the foreign export of North Slope oil should be lifted.

At a time when the state is seeking to increase revenues without adversely affecting individuals or industry, and at a time when the petroleum industry is suffering from the fluctuations of an unstable market, allowing the export of North Slope oil would provide a significant degree of financial relief.

One of the major arguments used by opponents of oil exports is that it threatens the nations' energy security. But a closer examination of the facts shows that the opposite is true.

Due to the lower cost of shipping ANS oil to Pacific Rim markets rather than to the Gulf Coast, oil exported overseas would increase the current wellhead value by as much as 4 dollars per barrel. This, in turn, would spur exploration and development, greater industry profits, and substantial revenues for both the Alaska and U.S. treasuries.

The Institute of Social and and Economic Research at the University of Alaska estimates the potential revenues to the state at anywhere from \$30 million to \$1 billion dollars.

The \$1 billion dollars in potential federal revenues would go a long way to helping reduce our nation's budget deficit as well as significantly cutting our the United States' lopsided trade imbalance.

Today, approximately 3400 barrels of state royalty oil at Cook Inlet is being exported to Taiwan. The recently affirmed Free Trade Agreement with Canada will allow for shipments of 50,000 barrels ANS oil to Canada annually.



STEVE COWPER
GOVERNOR

STATE OF ALASKA

OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

March 17, 1989

MEMORANDUM

TO: THE HONORABLE BETTYE FAHRENKAMP, Alaska State
Senate

FROM: *JK* JOHN W. KATZ, Director of State/Federal Relations
and Special Counsel to the Governor

SUBJECT: OIL EXPORT RESOLUTION

Per my recent discussions with Danny Consenstein, I have attached a revised version of HJR 2. This iteration has been reviewed by the Department of Natural Resources and by others (our lobbying firm, etc.) here in Washington, D.C.

I will give you a call later today to discuss the revised version and the finding implications of an enhanced advocacy effort on oil exports back here.

Hope that all is well with you.

Attachment

cc: Governor Steve Cowper
Cathy Peska
Commissioner Lennie Gorsuch
Denby Lloyd
Bob Evans
Jim Eason

From: John Katz
OFFICE OF THE GOVERNOR OF ALASKA
444 North Capitol Street, N.W. #518
Washington, D. C. 20001
(202) 624-5858

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TELECOPIER TRANSMITTAL INFORMATION SHEET

PHONE # SENT TO: 463-4867
DELIVER TO/
HOLD FOR PICK UP: Senator Fahrenkamp

COMMENTS: _____

SUBJECT: Oil Export Resolution

DATE: 3/17/89

TIME: 12:00 AM PM EASTERN DAYLIGHT TIME

NUMBER OF PAGES: 4 (including transmittal sheet)

OPERATING SPEED: AUTOMATIC

OPERATOR: Ginger

IF TELECOPY DOES NOT COME THROUGH PROPERLY, PLEASE CONTACT
THIS OFFICE IMMEDIATELY.

THANK YOU!

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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WHEREAS, domestic exploration and development of newly discovered oil reserves will enhance the nation's energy and economic security; and

WHEREAS, the foreign export of Alaska North Slope crude oil will provide an incentive for further domestic oil exploration and development; and

WHEREAS, any new discoveries and production resulting from increased domestic exploration will facilitate the development of infrastructure and production facilities needed to produce currently uneconomic North Slope reserves, and, thus, lower the average development costs of all North Slope production; and

WHEREAS, exporting oil to Pacific Rim nations will decrease the substantial trade deficit with these nations, which have expressed a strong interest in purchasing Alaskan-produced oil, as evidenced by the sale under a U.S. Department of Commerce export license of Alaska Cook Inlet oil to a Taiwanese company; and

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BE IT RESOLVED that the Alaska State Legislature respectfully requests the United States Congress to enact laws providing for the export of Alaska crude oil, regardless of the oil's point of production in the State, on a barrel for barrel basis for oil imported from other countries in this hemisphere under terms which afford enhanced economic benefits for the nation, without diminishing domestic security or reducing crude oil available for domestic purposes; and be it

FURTHER RESOLVED that the Alaska Congressional delegation and the Governor are urged to continue using their best efforts to obtain passage of legislation permitting the export of Alaska crude oil, regardless of the oil's point of production in the State.

COPIES of this resolution shall be sent to the Honorable George Bush, President of the United States; the Honorable Dan Quayle, Vice President of the United States and President of the U.S. Senate; the Honorable Jim Wright, Speaker of the U.S. House of Representatives, the Honorable George Mitchell, Majority Leader of the U.S. Senate; and the the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.