HB 362

HOUSE COMMITTEE REPORT

(1)
Date Referred to Committee: February 2, 1996 FURTHER REFERRALS: World Trade

Date of Committee Action: _____

The FINANCE Committee considered: HB 362

HOUSE BILL NO. 362 AVIATION FUEL TAX EXEMPTION

"An Act extending the motor fuel tax exemption for fuel sold for use in jet propulsion aircraft to fuel used in those aircraft for flights that continue from a foreign country."

recommends it be replaced [ ] the same title
with the following committee substitute _____ [ ] a new title

[ ] additional referral to _____ Committee
[ ] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Dept/Date)

[ ] fiscal note(s) _____ [ ] fiscal note(s) _____

[ ] zero fiscal note(s) _____ [ ] zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
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April 19, 1996

Mark Hanley, Co-Chairman
Richard Foster, Co-Chairman
House Finance Committee
Alaska State Legislature
Room 519 - Capitol
Juneau, AK 99811

Dear Legislators:

As a member of the Air Transport Association (ATA) and an employer of over 700 Alaskans who delivers to 3,500 Alaska destinations regularly, we are concerned that foreign refiners have a tax advantage over in-state refiners relative to the Alaska Motor Fuel Tax. The State of Alaska has granted an exemption on this tax for all flights leaving Alaska bound for foreign destinations, but the inbound flights have been, and are continuing to be, taxed at $0.032 per gallon. House Bill 362 was introduced to "level the playing field" for in-state Alaskan refiners and eliminate the tax for inbound foreign flights. Federal Express supports HB 362. HB 362 is similar to legislative relief previously granted in other states with similar tax situations. The states of California, Tennessee and Illinois have passed legislation exempting inbound international flights from state and local taxes. This was done, of course, to protect the interests of in-state refiners who would otherwise be unable to compete with bonded or Free Trade Zone fuel imported from foreign sources, which by Federal law is tax exempt.

Passage of HB 362 will support domestic Alaskan refiners, utilize domestic Alaskan crude oil and enhance the economics of several communities because airlines will purchase their needed fuel requirements from in-state refineries. To not pass HB 362 will cause considerable importation of foreign oil, reduce revenues to Alaska corporations and cause refiners to reduce sales of their products.

We are aware of Mr. Herbert Goodman's paper and recommendations to you, but we can find no practical way that Alaskan refiners could charge us $0.032 per gallon less for fuel placed on inbound domestic flights only, nor do we believe it is fair to place a $0.032 per gallon tax disadvantage on your own in-state companies. Nonetheless, while calendar year 1995 saw three vessels bringing FTZ fuel into the Port of Anchorage, airlines which have foreign origin or destination flights are at this time planning to bring additional FTZ

Page Two

fuel into Anchorage. Without tax relief available in Alaska airlines will have no choice but to import FTZ fuel. Federal Express expects to import about 1 to 1.5 million gallons of bonded/FTZ fuel per month beginning immediately. This represents the portion of our fuel required to supply all our inbound international flights.

Clearly, our preferred choice is to continue our business relationships with Alaskan refiners. As such, we believe the relief provided by the proposed legislation is essential to the in-state jet fuel market. We ask for your support in passing HB 362 and believe that in view of other states passing similar legislation thereby protecting their own in-state refiners, such a request is reasonable and fair.

Thank you for your support.

Bill Stark-/jm

William H. Stark
Managing Director
Fuel Administration

whs232/jm

cc: Finance Committee Members
Pete Kelly
Vic Kohring
Eldon Mulder
Terry Martin
Sean Parnell
Gene Therriault
Mike Navarre
Kay Brown
Ben Grussendorf

Governor Knowles
Joseph Perkins - Transportation
Jim Clark
Fred Ketzeback
Doug Podalak
Bob Sturtz
Chuck Flynn
Bonnie Gardner
Jeff Fabian
Bill Phelan
Wilson Condon - Revenue

MAPCO ALASKA PETROLEUM INC.

Jeffry J. Cook
VICE PRESIDENT
EXTERNAL AFFAIRS & ADMINISTRATION

April 1, 1996

Representative Mark Hanley, Co-Chairman
Representative Richard Foster, Co-Chairman
House Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801-1182

Dear Representatives Foster and Hanley:

We respectfully urge your prompt, positive action on House Bill 362, which we are hopeful will result in passage of this bill by the full house of representatives. We understand that the State does not want to forego revenue, but it is our belief this revenue on flights returning through Anchorage from international originations to domestic destinations will be lost anyway.

Audit and consultants reports by and for the State of Alaska indicate the use of the Foreign Trade Zone (FTZ) in Anchorage to avoid the state motor fuel tax on jet fuel puts in-state refiners at a disadvantage. Written and verbal testimony by air freight operators such as FedEx indicates if the FTZ use is withdrawn or blocked, they will use either the bonded fuel approach or find alternative airports.

DOT Commissioners Perkins has indicated there is nothing to prevent carriers from using the bonded fuel approach. I know your committee and others have been looking for a possible Federal fix or solution. We have been in contact with Andrew Lundquist and others in Senator Murkowski's office. They indicate there is no logical or practical approach to modifying the FTZ provisions or bonded fuel provisions for the Alaska situation. In fact, many states have taken action similar to that proposed in HB 362 to attract international air carriers. This business has become very competitive both in the number of carriers in the business and from the standpoint of the number of cities, U.S. and foreign, trying to attract or pirate away international air freight carriers.

The Anchorage International Airport requires somewhere around 550 million gallons of jet fuel per year. About 80 million gallons or 15 percent of demand, as best as we can determine, cannot be supplied by in-state refiners due to lack of refining capacity. Typically this shortfall has come from U.S. refineries in the Northwest U.S. But activation of the FTZ in the fourth quarter of 1995 resulted in 20 million of those gallons coming in from foreign sources to avoid the 3.2 cents motor fuel tax on flight returning from foreign to domestic locations.

It is my sincere opinion, and I believe that of the vast majority of Alaskans, that State tax policy should not favor foreign refiners. If anything, State policy should encourage in-state value added refining. MAPCO learned last week from the Port of Anchorage Marketing Director that our tanks at the port are in the FTZ and could be activated. Without passage of HB 362 or some other mechanism to level the playing field that is probably the approach we would take as we cannot meet our jet fuel sale commitments at our own refinery. We feel a better solution is passage of HB 362, which would encourage us and other in-state refiners to expand refinery capacity rather than buy spot cargoes of foreign refined jet fuel so we can be on equal competitive ground.

1150 H & H LANE • NORTH POLE, ALASKA 99705 • PHONE (907) 488-2741 • FAX: (907) 488-0074

A study ordered by the State Department of Revenue shows that the per gallon shipping charge for jet fuel from Singapore to the Port of Anchorage is less per gallon than the cost for us to ship jet fuel from our North Pole Refinery to the Port of Anchorage on the Alaska Railroad. And foreign refining costs are much less than Alaskan refining costs. So activating our tanks in the FTZ or dedicating tanks to bonded fuel is a very practical solution for us, but not one we feel is best for Alaska. Also, passage of HB 362 sends a signal that Alaskan airports want to attract and retain the growing international cargo business. Landing fees, fuel flowage fees, catering fees, lodging fees and other economic returns far exceed the revenue loss from the motor fuel tax if the return international flight jet fuel sales are exempted by HB 362.

We realize the State did not create this situation, nor did the in-state refiners. But only the State can fix the problem. Time for a solution in this session is running out. So far no other solution has been developed to level the playing field. If there is a sincere belief such a solution might develop, HB 362 could be amended with a "self destruct" clause. If it is determined in the future the State has the right to tax this fuel in either the FTZ or as bonded fuel, the provisions of HB 362 would be negated. One carrier is currently appealing the right of the State to tax fuel on return foreign flights irrespective of use of FTZ or bonded fuel. Results of this appeal, if favorable to the State could also be factored into a "self destruct" clause.

Thank you for your attention to our concerns. We would be happy to meet with you individually or as a group to answer questions and concerns. Such dialogue could include others with concerns about the effects of HB 362. Some action is needed soon so that Alaska does not encourage importing of foreign refined jet fuel, but rather encourages in-state refiners to dedicate capital and human resources to meet the short fall in jet fuel production in Alaska.

Sincerely,

Jeffry J. Cook
Vice President External Affairs
& Administration
MAPCO ALASKA PETROLEUM Inc.

cc: House Finance Members
Members Alaska House of Representatives
Governor Tony Knowles
Mayor Rick Mystrom, MOA
Commissioner Joe Perkins
Commissioner Will Condon
Bob Hatfield, President Alaska Railroad

April 8, 1996

Representative Mark Hanley
Alaska State Legislature
State Capitol (MS3100)
Juneau, Alaska 99801-1182

Dear Representative Hanley,

I have appreciated the opportunity to express my ideas and opinions s to you in the past. Now, I find that there is an issue of great importance to me on which I would appreciate your support. The legislation in question is House Bill 362, authored by Rep. Gene Therriault. This bill addresses the issue of fairness in taxation between in-state producers and foreign importers of aviation jet fuel.

Without passage of HB 362, locally produced jet fuel is subject to 3.2 cents per gallon taxation on the continuing inbound legs of international flights, while foreign produced fuel for the same flights is exempt from this tax under Federal regulations. Without the passage of this bill, local refiners either lose business to foreign competitors or have to absorb the 3.2 CPG to be competitive. I urge you to support HB 362, to move it out of committee and then to support its passage once it reaches the House floor.

Passage of this bill will enable local refiners to remain competitive, which supports employment within the State and the Alaska Railroad system. Thank you for your time and support.

Yours Truly,

David M. Parker

Attachment 1
3/21/96

Municipality of Anchorage

P.O. Box 196650
Anchorage, Alaska 99519-6650
Telephone: (907) 343-4431
Fax: (907) 343-4499

Rick Mystrom, Mayor

OFFICE OF THE MAYOR

March 14, 1996

The Honorable Tony Knowles
Governor
Office of the Governor
State of Alaska
Post Office Box 110001
Juneau, Alaska 99881

RECEIVED
MAR 20 1996
OFFICE OF THE GOVERNOR

Dear Governor Knowles:

This is written in response to your letter of December 21, 1995, expressing your Administration's concern about Anchorage Foreign Trade Zone #160 activities.

As you know, much discussion has taken place concerning this matter and several meetings have been attended by officials of the Municipality and the State of Alaska in efforts to understand and determine the future actions and activities within the Zone.

Recent meetings have resulted in a good exchange of information and many productive ideas were brought forth. Both parties have expressed a desire to see our Foreign Trade Zone succeed. We are in concurrence that the Zone is a tool for creating more economic development, more employment and more revenue for Alaska. We also agree that by working together on issues of common interest we can be much more productive.

Therefore, the Municipality of Anchorage is prepared to go forward with a "Memorandum of Understanding" as you requested in your letter. It will provide for the State of Alaska having complete control prior to any new FTZ authorization on State land within Foreign Trade Zone #160. It will also provide that the State of Alaska must agree to the activities to be conducted within any future FTZ site authorized on State land. Activity level within the Zone has been minimal to date and it does not warrant the need for moving to a non-profit corporation management plan at this time. There has not been the level of business to generate the additional revenues to fund such a structure, and our present users are satisfied with its present method of operation. If and when the level of activity within the Zone requires more complex management in the form of a non-profit corporation, the Municipality shall include the State as our FTZ application specifies.

City officials will soon contact Commissioner of Transportation Perkins to arrange for the preparation and execution of the Memorandum of Understanding you desire. By taking this action, I believe the concerns expressed by all parties can be properly addressed.

As business in FTZ #160 expands, I would hope that we might explore a plan to jointly market its benefits to potential domestic and foreign FTZ users. Such a program would be mutually beneficial to the State and the Municipality.

Sincerely,

Rick Mystrom
Mayor

cc: Commissioner Perkins, DOT&PF

STATE OF ALASKA
1996 LEGISLATIVE SESSION

REPORTED OUT OF HFC

FISCAL NOTE No. 1

Version: HB 362

(H) Publish Date: 2/2/96

Revision Date:

Dept. Affected: Revenue

Title: Aviation Fuel Tax Exemption

BRU: Revenue Operations

Component: Income and Excise Audit

Sponsor: Representative Therriault

Requestor: House Transportation

COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )	(3,528.0)	(3,740.0)	(3,964.0)	(4,202.0)	(4,412.0)	(4,632.0)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost $

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Larry E. Meyers, Director

Phone: 269-6623

Division: Income and Excise Audit

Date: 1/23/96

Approved by Commissioner:

Date: 1/23/96

Agency: Department of Revenue

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COMMITTEE COPY

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ISSUE
The activation of a Foreign Trade Zone (FTZ) in Anchorage (Oct. 1995) allowed imported foreign aviation fuel to be sold exempt from state tax to aircraft flying directly or indirectly to a foreign country. Alaska oil refining industry believes that they will not be able to compete economically with FTZ (foreign import) fuel unless the current Alaska tax exemption for direct foreign flights is expanded to include indirect (i.e. flights that refuel in Alaska, stop in another U.S. city and then continue on to a foreign country). Current Alaska statutes provide only for an exemption for fuel sold on flights going directly to a foreign country.

Current Law
AS 43.40 (Alaska motor fuel tax) currently imposes a 3.2 cent per gallon tax on aviation jet fuel purchased in Alaska. Fuel purchased in Alaska for use in flights directly from Alaska to a foreign country is exempt from the Alaska tax. Fuel purchased for use in flights originating in a foreign country, refueling in Alaska and continuing to a U.S. destination prior to returning to foreign country (i.e. indirect foreign flight) is taxable.

Proposed Law
HB 362 would expand the above exemption to exempt from tax fuel purchased in Alaska for all flights to or from foreign countries.

Revenue Impact
This bill will result in approximately $3.528 million in revenue loss for FY 97 increasing at 6% through FY 2000 and 5% thereafter.

This estimate considers the effect of the recent activation of Anchorage Foreign Trade Zones (FTZ). The FTZ allows international air carriers to use imported fuel without incurring customs duties. Under the rules and regulations of the U.S. Customs Service, the operation of the FTZ allows air carriers to place imported fuel in the FTZ and withdraw the fuel for use in flights to or from a foreign country. Under federal law, the State of Alaska cannot impose tax on fuel placed in the FTZ. Alaska will lose tax revenues from the FTZ independently of HB 362.

The fiscal impact of HB 362 results from exempting fuel that could not otherwise qualify for FTZ treatment or the current foreign flight exemption. The fiscal impact is measured by the amount of domestic fuel that is used for flights that continue from foreign countries to a U.S. destination.

Fiscal Note Assumptions/Calculations

1) DOR economic analysis indicates that a 3.2 cent tax advantage for foreign fuel placed in the FTZ will not result in a significant increase in foreign fuel imports. Transportation costs and favorable crude price and supply will continue to make Alaska refined fuel most economical. West Coast imports will continue to be cheaper than imported foreign fuel.

2) According to the Alaska Center for International Business, the imports of jet fuel for the last six years has averaged 43.928 million gallons. DOR has used this average to estimate future imports of FTZ fuel. Approximately 50% of the imported fuel is used in flights that already qualify under the current foreign flight exemption. Therefore, 50% of expected imports or 21.964 million gallons will be used in continuing foreign flights. At a 3.2 cent tax rate, this equates to $0.702 million in tax revenue lost from FTZ fuel.

3) Total estimated aviation fuel tax revenue to be collected in FY97 from indirect foreign flights was $4.23 million. Estimated revenue loss due to import of FTZ fuel is $.702 million. Thus the remaining potential revenue loss from HB 362 is $3.528 million for FY 97.

4) The air carriers that will be affected by HB 362 are primarily transit cargo carriers. Transit cargo is defined as cargo that either (1) remains on an aircraft during a stopover at the Airport or (2) is off -loaded exclusively for customs clearance and/or sorting and is then reloaded. Expected increases of transit cargo- 6% through 2001 then 5%. This rate applied to FY 97 revenue loss. Source: Anchorage International Airport Master Plan Update, Fall 1995, Table 15.

5) Actual revenue loss is dependent on the amount of foreign fuel that will be imported and placed in FTZ. Alaska is pre-empted from taxing this fuel.

COMMITTEE COPY

ANCHORAGE FUELING AND SERVICE COMPANY
4565 W. INTERNATIONAL AIRPORT RD.
ANCHORAGE, ALASKA

TELEPHONE:
(206) 433-3168

REPLY TO:
Fred Ketzeback
Chairman

TESTIMONY OF ANCHORAGE FUELING AND SERVICE

COMPANY TO THE HOUSE FINANCE COMMITTEE CONCERNING

H.B. 362

Mr. Chairman, Anchorage Fueling and Service Company (AFSC) takes no position on H.B. 362. It is extremely concerned, however, that consideration of this bill has implicated the Anchorage Foreign Trade Zone, of which AFSC is a customer. AFSC supports the wisdom of the Foreign Trade Zone, worked with both the Municipality of Anchorage and the State to create the zone, and opposes the State's apparent change of heart and current attempts to terminate the zone to the detriment of AFSC and its shareholders.

By way of background, AFSC is an Alaska corporation, which was formed in 1981 by Alaska Airlines, Western Airlines, Japan Airlines, and Northwest Airlines. Since then it has grown to include as shareholders virtually all the airlines providing significant services through the Anchorage International Airport. It currently has 20 shareholders. I have attached a list of the members for the Committee's convenience. Former members include the European national carriers who previously provided passenger service between Asia and Europe through Anchorage. Due to the availability of over-flights through Russian airspace, and the advent of longer range passenger jets, most of the European carriers are no longer shareholders. Some, such as Lufthansa and Air France, continue to provide air cargo services through Fairbanks.

AFSC was formed, and has consistently acted, as a "cost company" whose goal is to maximize the free competition among oil companies and fuel suppliers, so that AFSC's shareholders may enjoy the lowest price possible for their fuel. AFSC does not purchase fuel. Fuel purchasing is done by each individual airline, on individual terms, from separate suppliers, for separately negotiated prices. AFSC has sought to maximize the options in fuel purchasing

for its members throughout its life, in the belief that if maximum competition is present, the shareholders will benefit. It was with that goal in mind that it previously provided bonded fuel facilities to its members, and also worked with the MOA and State to create the Anchorage Foreign Trade Zone.

It has been true in the past, and remains true, that no combination of in-state suppliers can provide all the jet fuel required at the airport. Historically, that has meant using water borne cargo, most of which came form the refineries neat Anacortes, Washington. It has also been historically true that when market conditions were appropriate shareholders would purchase foreign fuel for import into the United States at Anchorage. It has also been historically true that the international carriers using Anchorage for "technical stops," that is, stops purely for the purpose of refueling, have been extremely cost sensitive. AFSC's experience in the past has been that when it became possible to avoid Anchorage, the carriers did so. It has also been AFSC's experience in the past that several carriers have moved their operations from Anchorage to Fairbanks, lured largely by the availability of fuel from the MAPCO refiner. Since MAPCO can ship fuel to the Fairbanks airport by truck considerably cheaper than it can ship it to Anchorage by rail, coupled with a less competitive market, it has apparently meant that fuel prices were marginally lower.

This phenomenon is at work not only in the continuing efforts to shift flights between Anchorage and Fairbanks, but also is at work between Anchorage and airports in the former Soviet Union and airports in Canada.

From the standpoint of AFSC, its airline shareholders, and the State, there are many advantages to the foreign trade zone. The foremost of these is that it encourages airlines to operate to and through Anchorage, because it reduces their cost of operation. This is particularly true of international cargo flights. As you are well aware, Anchorage International Airport has become a major cargo hub for Federal Express, and UPS has announced a major expansion of its facilities. In addition, there have been suggestions that inter-airline cargo sorting facilities be constructed in Anchorage, and there has been a steady increase, in the number of transit cargo flights to and from Asia. In fact, from a fuel stand-point, the airport has fully recovered from the 1989 departure of the international passenger flights between Europe and Asia. During the very recent

past, five cargo airlines have begun service to and through Anchorage, which has off-set the move to Fairbanks of certain European cargo airlines, such as Lufthansa. These are Polar Air Cargo, Southern Air Transport, EVA Airlines, Evergreen Airways and Atlas Air. In addition, we continue to receive inquiries from airlines who are evaluating the possibility of using Anchorage as a transit point. On the other hand, we are aware that airlines which are currently members of AFSC continue to evaluate using Fairbanks, and other locations, as alternative technical stops. For example, last week China Airlines was in Fairbanks evaluating the possibility of moving its operations there.

To put this matter in perspective, during 1989 AFSC pumped approximately 560,000,00 gallons of jet fuel at the Anchorage International Airport. Starting in 1989, due to the availability of new, longer range aircraft for passenger service, and the opening of airspace through the former U.S.S.R., there was a precipitous drop in traffic through the airport, and in the following years, AFSC pumped as little as 455,000,000 gallons. Since that time there has been a steady increase in the number of cargo flights through Anchorage, and it is our understanding that Anchorage is now the leading airport in the United States in terms of pounds of cargo imported. As a result, during the year just completed, AFSC pumped approximately 530,000,000 gallons, and the trend appears to continue upward. To put this in concrete financial terms, as you are probably aware, there is a 2 cent per gallon "flowage fee" for fuel lifted at the airport. Thus, AFSC member airlines have remitted to the airport approximately $10,600,000 over the past year. In addition, of course, the member airlines pay the airport for landing fees, terminal rentals, land leases, and the like. They also purchase equipment and supplies, and employ people to provide necessary services.

Has the Anchorage Foreign Trade Zone been exclusively responsible for these developments? No. Has it been a significant factor in persuading airlines that Anchorage, rather than Fairbanks, the former U.S.S.R., or other locations is a good place to commence or continue to do business? Yes.

The Foreign Trade Zone has been a significant factor in this on-going effort because it helps the carriers operating in Anchorage control their costs. The largest single non-capital cost, after labor, of operating an airline is fuel. There is obviously an intense and continuing effort on the part of all airlines to

minimize that expense. The foreign trade zone helps to accomplish that in two ways. First, and apparent reason this came to your attention, is that it obviates the need to pay a portion of certain state taxes, depending on the source of the fuel and destination of the aircraft. Even with the FTZ in full operation, however, the airlines will continue to pay substantial amounts in motor fuel tax. It is our understanding that the Committee has been provided estimates of revenue loss based on the assumption that foreign fuel would constitute as much as one third of all fuel used at the airport. Based on current experience that appears to be a grossly excessive estimate. In any event, the amount of foreign fuel imported will be a function of world market conditions for jet fuel, which sometimes favor foreign fuel and sometimes favor domestic fuel.

Second, and much more important in the larger picture, it allows the airlines to encourage price competition among oil companies and fuel distributors. Price competition, which is certainly to the benefit of Anchorage, Alaska and their citizens, is encouraged because of the increased opportunity of additional oil companies to enter the market. You are aware that Kuwait Petroleum has brought two tankers to Anchorage. Chevron also brought in a tanker from a Korean refinery to supplement their fuel commitments at Anchorage. To the extent that this exerts a downward effect upon price, it is to the benefit of the airlines, the Municipality, and the State.

The benefit to the Municipality and the State is the increased economic activity at the airport. These flights generate multiple benefits. Their crews need to be housed and fed. The aircraft need to be serviced and repaired. Their cargo needs to be moved and sorted. Transportation costs for goods sold in Anchorage and elsewhere in Alaska are minimized. All these create solid, dependable jobs for the citizens of Anchorage, in addition to the improved services available to the citizens and businesses of Anchorage and Alaska.

As you are probably aware, the last few years have seen a great deal of effort by other communities to win this traffic away from Anchorage. There are several obvious examples. In Fairbanks, the airport has made the availability of the MAPCO refiner, and the preferential price deals it will allegedly, make, a cornerstone of its effort to lure flights from Anchorage. It has been successful with some to the European carriers, such as Lufthansa and Air France. Since Fairbanks does not have the apparent ability to create a

foreign trade zone, it would definitely be to the interest of the Fairbanks airport and MAPCO to prevent the use of and FTZ in Anchorage. The second competitor, the Soviet Far East, which has commenced an aggressive program designed to lure international traffic, is less well known in this country. Numerous airports have been trying to establish themselves as technical stop locations for cargo traffic from Asia to Europe, and we are advised that some to the airlines using Anchorage also use, or are actively evaluating, airports in the Far East. As usual, there are many factors in this evaluation, but one of the most important is a competitive fuel price.

Other examples are recent developments in Canada. Vancouver, B.C. is actively marketing its recently privatized airport as a gateway to Asia. It has taken the very aggressive step of reducing landing fees by 25% on cargo aircraft making technical stops in Vancouver, and has billboards at the Seattle airport advertising "New Route to Asia - Go North and Turn Left." I do not think that they mean Anchorage when they advise people to go north. We also know that Vancouver is actively courting airlines which have been considering Anchorage as a stop, such as Malaysia. Similarly, the Province of Alberta is considering eliminating the Provincial tax on jet fuel, which is equal to approximately 28.5 cents per gallon. The stated purpose of this tax reduction is to lure cargo technical stops.

The point of these examples, of course, is that there is a great deal of competition for these technical stops. Anchorage has historically had a great deal of this business, due to its geographic location. As we learned with the departure of international passenger flights, however, geography is not everything. Price is a very substantial factor. The cargo business is less time sensitive, and can therefore be more price sensitive, than passenger traffic. This will naturally mean, among other things, that Anchorage should do everything within its power to foster the competition which will assure reasonably priced fuel.

In evaluating the suggestion that the FTZ creates an unfair economic advantage for non-US oil companies, and will have the effect of costing jobs at the MAPCO refinery, several comments are in order. First, it is our understanding that the carriers in Anchorage continue to purchase fuel from MAPCO in substantial quantities, just as they did prior to the availability of the

FTZ. This fuel would be used for domestic flights, and because it is always important for the carrier to have an established, domestic, available supply of fuel. Needless to say, MAPCO can bring fuel from Fairbanks with more reliability than Kuwait can bring it from the Persian Gulf. Second, the Petro Star refinery in Valdez continues to expand the volume of fuel it supplies to the airport. This volume appears to be at least as great, and probably greater on a sustained basis, than the volumes from foreign companies. We are unaware of any suggestion that MAPCO has lost jobs in Fairbanks because of the expansion to the Valdez refiner. In this connection, it is worth pointing out that the Valdez refiner (Petro-Star) has announced plans for continued expansion. Third, due to the continued demand for jet fuel, and for diesel and home heating oil, it seems highly unlikely that the MAPCO refinery will actually lose any jobs. Fourth, due to its guaranteed supply of North Slope crude oil, and the relatively low transportation costs it must pay, MAPCO would seem to have a significant cost advantage over foreign produces in supplying refined product to the Anchorage market. Fifth, any minimal job losses which might occur in Fairbanks are more than off-set by job increases in Anchorage associated with the continued expansion of the Airport. Sixth, the primary economic consequence to MAPCO seems to be that it must compete with other world-wide refiners. It is AFSC's view, and we hope that of the State, that governments should not create protected markets, but should instead foster free and open competition. Rather than acting to create a protected market for MAPCO, with an artificially high price and the consequent cost increase to the airlines, the State should, as it has, act positively to foster price competition among the oil companies.

We are not able to provide information concerning specific price comparisons between MAPCO (or any other producer) and imported FTZ fuel. That information is held proprietary by each of the respective airlines, each of whom are responsible for purchasing their own fuel on their own terms. However, when comparing the official public posted prices for jet fuel at major West coast airports one can easily see that Anchorage is 4 to 5 cents higher than L.A. or Seattle. this price differential is essentially the transportation cost from these lower 48 locations to Anchorage. The three refineries in Alaska - MAPCO, Tesoro and Petro Star, do not have the refining capacity to produce enough jet fuel to meet the aviation needs in the State of Alaska.

Therefore, airlines and other fuel suppliers must import the incremental volume to meet the total jet fuel requirements in the State. This imported fuel effectively establishes the price level for all jet fuel in Anchorage. The Alaska refineries, therefore, appear to have a protected price of West Coast plus 5 cents. This would appear to give the Alaska refineries a significant price and profit advantage. The FTZ at Anchorage should help balance this price disparity by providing incentive for additional foreign fuels to enter the market at a more competitive price since many times this product is cheaper to obtain from foreign markets than importing from the lower 48.

Although it is certainly true that the State will lose some Motor Fuel Tax revenues based upon the operation of the FTZ, just as the MOA will lose some property tax revenue's, it is our belief that these losses are more than off-set by the increased and continuing economic activity connected with the Anchorage International Airport. We wholeheartedly support the Administration's position that Alaska should be "open for business." We believe that it would be an unfortunate reversal of this position, and a chilling message to both present and future businesses considering investments in the state, if the State were to reverse its prior position, terminate the cooperative relationship it had previously developed with the airline community, and continue its efforts to de-activate the foreign trade zone.

We would be pleased to try and answer any questions from the Committee.

ANCHORAGE FUELING AND SERVICE COMPANY
SHAREHOLDER AIRLINES

ALASKA AIRLINES
ASIANA AIRLINES
ATLAS AIR
CATHAY PACIFIC
CHINA AIRLINES
DELTA AIR LINES
EVA AIRWAYS
EVERGREEN INTERNATIONAL
FEDERAL EXPRESS
JAPAN AIRLINES
KLM ROYAL DUTCH AIRLINES
KOREAN AIRLINES
NIPPON CARGO
NORTHWEST AIRLINES
POLAR AIR CARGO
REEVE ALEUTIAN AIRWAYS
SINGAPORE AIRLINES
SOUTHERN AIR TRANSPORT
UNITED AIRLINES
UNITED PARCEL SERVICE

To: Jeff Cook

From: Keith Selby

Subject: DOR Calculations of Mapco Compantive Cost Analysis Calculations on Jet Production.

I would like to address the calculations presented in a Feb. 3, 1996 memorandum from Sara Fisher which attempted to compare Mapco costs for making Jet fuel with the costs of an importer. I have two significant corrections to the DOR calculations.

QUALITY BANK PENALTY

The DOR showed a Quality Bank fee of $.72/barrel of return. Or $1.32/barrel of product retained. This Quality Bank is on the combined North Pole refineries as opposed to Mapco only. It also does not include the additional payment that Mapco must make to our intransit partners to keep them whole. The correct Mapco Quality Bank for Sep. 1995 is $.84/barrel of return oil or $1.60/barrel of product retained. But this does not tell the whole story. The DOR apparently assumes that every type of product incurs the same Quality Bank penalty. This is not correct. Jet has the highest Quality Bank payment of all products and in Sep. 1994 was $3.23/bbl of Jet retained.

REFINERY COST

The DOR used a $.50/barrel refinery operating cost for Mapco and an importer. $.50/barrel of crude run is an accurate estimate of our incremental operating costs. But most refineries run 100 barrels of crude and produce 95-100 barrels of product. Mapco runs 130,000 barrels/day of crude and makes 40,000 barrels/day of product, returning the rest to TAPS. Thus the incremental cost of $.50/barrel of crude becomes $1.62 per barrel of product. This should be used in a comparison rather than the $.50/barrel of crude.

Making these two corrections to the DOR calculations results in the following comparison.

CORRECTED COST COMPARISON

	Mapco	Importer
Crude	$11.49	$16.67
Tariff	$2.38	
QB	$3.23	
Ref. Cost	$1.62	$.50
Rail	$3.15	4.50
Tax	$1.34	
Total	$23.19	$21.67

Therefore, if the DOR had correctly used the Quality Bank and operating cost data, they would have determined that an importer using the FTZ has a significant cost advantage over Mapco.

Keith Selby

CC: Randy Newcomer
Mike Smith
Bonnie Garner

Comparative Costs to Get Jet Fuel to Anchorage vs. Market Price in Anchorage:

September 1995

Based on best available public information

Dist. by Revenue

(P) FACTS NOT REPRODUCABLE FROM ORIGINAL DOCUMENT

Mapco

Pump Station #1 Price $11.49/bbl

Add TAPS Tariff $2.36/bbl

Add Quality Bank Fee $1.32/bbl

Add Refinery Costs $0.50/bbl

Add Train Freight $3.15/bbl

Add Fuel Tax $1.34/bbl

(P) ANCHORAGE COST $20.16/bbl

Importer

Caribbean Spot Market Price $16.67/bbl

Add Refinery Costs $0.50/bbl

Add Tanker Costs $4.50/bbl

(P) ANCHORAGE COST $21.67/bbl

(P) ANCHORAGE MARKET PRICE $28.95/bbl*

'rice; co 'er

Backup Information
Department of Revenue Jet Fuel Comparative Cost Analysis (for September 1995)
HB362

Mapco Costs

Pump Station #1 Cost **$11.49/barrel**

Source: State of Alaska Royalty-in-Kind Billing (Attachment A)

TAPS Tariff to North Pole **$2.36/barrel**

Source: 1995 TAPS tariff filings, weight averaged across fields and TAPS owners (estimated by volume weight average; actual tariff paid by Mapco may vary slightly) (Attachment B)

Quality Bank Fee **$1.32/barrel**

Source: TAPS Quality Bank Stream Values and Total Stream Volumes Shipped

Calculation as follows (Attachment C):

Barrels leaving Pump Station #1	42,225,533 barrels
Less Barrels passing North Pole	38,384,128 barrels
Barrels removed by Mapco (Calculated)	3,841,405 barrels
Barrels returned to TAPS by Mapco	2,488,632 barrels
Barrels retained by Mapco (Calculated)	**1,352,773 barrels**
Quality Bank fee paid	$0.72/barrel
Barrels to which penalty applies (returned barrels)	2,488,632 barrels
Total Quality Bank fee	$1,791,815
Quality Bank fee spread over barrels run through refinery	$1,791,815/1,352,773 barrels $1.32/barrel

Refinery Costs **$0.50/barrel**

Source: Estimate based on discussions with industry consultant, who gave possible range of costs at $0.20 to $1.00 per barrel.

Alaska Railroad Freight **$3.15/barrel**

Source: Alaska Railroad public rates for Petroleum Products, annual minimum volume of 30 million gallons (Attachment D)

Importer Costs

Caribbean Spot Market Price **$16.67/barrel**

Source: Platt's Oilgram Price Report - ANS gulf coast spot market price for September

Refinery Costs **$0.50/barrel**

Source: Estimate based on discussions with industry consultant, who gave possible range of costs at $0.20 to $1.00 per barrel.

Tanker Freight **$4.50/barrel**

Source: Estimate based on cost to spot charter products tanker from Caribbean to Anchorage

Anchorage Market Price for Jet Fuel

Rack Price **$28.98/barrel**

Source: Bloomberg reporting service

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS
SUMMARY OF MONTHLY PRODUCTION AND IN-KIND BILLINGS FOR OIL AND GAS ROYALTIES
FOR PRODUCTION MONTH OF SEPTEMBER 1995
AND RECEIPT MONTH OF OCTOBER 1995 *

	VOLUME ROYALTY BBLS *1	REPORTED VALUE BEFORE FIELD COSTS *2	ROYALTY PYMT RECEIVED *3	YEAR TO DATE ROYALTY PYMT
Niakuk PA				
BP EXPLORATION	34,807.19	$11.37000	$333,640.64	$2,388,814.39
TOTALS	34,807.19		$333,640.64	$2,388,814.39
West Niakuk PA				
ARCO	2,819.86	$12.02000	$28,863.40	$103,594.37
EXXON	2,819.86	$11.37000	$27,030.50	$96,670.61
TOTALS	5,639.72		$55,893.90	$200,264.98
TOTAL LISBURNE CTR:	297,584.70		$3,278,828.76	$29,884,360.37
TOTAL PRUDHOE BAY UNIT - RIV	1,799,464.92		$17,943,899.12	$180,007,548.39

ROYALTY IN-KIND OIL

PURCHASER	QUANTITY PURCHASED	ROYALTY VALUE *4	ROYALTY PYMT RECEIVED	YEAR TO DATE ROYALTY PYMT
MAPCO	987,218.45	$11.48708	$11,340,257.23	$117,734,548.59
TESORO	1,042,780.90	$11.58484	$12,080,449.94	$122,428,384.82
TOTAL RIK BILLINGS	2,029,999.35		$23,420,707.17	$240,160,933.41
TOTAL PRUDHOE BAY UNIT - RIV & RIK	3,829,464.27		$41,364,606.29	$420,168,479.80

*1 Includes all liquid hydrocarbons.
*2 Field Costs for Prudhoe and Lisburne are $.83 per barrel.
*3 Royalty payment received is a net amount inclusive of COTP adjustments, reported NGL field cost deductions, and RIK field cost deductions.
*4 Invoices sent 10/02/95 based on royalty report values received 09/30/95.

KUPARUK RIVER UNIT

Kuparuk PA LESSEE	VOLUME ROYALTY BBLS	REPORTED VALUE BEFORE FIELD COSTS *5	ROYALTY PYMT RECEIVED	YEAR TO DATE ROYALTY PYMT
ARCO	564,598.51	$11.57000	$6,531,233.37	$63,944,961.12
BP EXPLORATION	413,821.46	$10.88000	$4,330,678.85	$41,904,989.80
CHEVRON	1,146.97	$11.84500	$12,750.87	$122,443.22
EXXON	2,298.15	$10.68000	$23,583.82	$234,831.43
MOBIL	3,863.09	$10.79800	$39,956.56	$393,663.70
UNOCAL	52,308.22	$11.12000	$559,279.49	$5,605,724.82
TOTAL KUPARUK RIVER UNIT:	1,058,026.40		$11,487,482.77	$112,104,613.89

*5 Field cost for Kuparuk is $.428 per barrel.

* Payments Received thru 11/02/95.

C: MSUM995 11/08/95

ATTACHMENT "A"

NOTICE OF PIPELINE CARRIER TARIFF FILINGS

The ALASKA PUBLIC UTILITIES COMMISSION gives notice that each of the seven Trans Alaska Pipeline System (TAPS) carriers has filed at least two tariff revisions.

The seven TAPS carriers are AMERADA HESS PIPELINE CORPORATION (Amerada), ARCO TRANSPORTATION ALASKA, INC. (ARCO), BP PIPELINES (ALASKA) INC. (BP), EXXON PIPELINE COMPANY (Exxon), MOBIL ALASKA PIPELINE COMPANY (Mobil), PHILLIPS ALASKA PIPELINE CORPORATION (Phillips), and UNOCAL PIPELINE COMPANY (Unocal).

Six of the TAPS carriers filed two tariff revisions: one filing to revise the quality bank adjustment; one filing to revise the general transportation rates and the pumpability factors used to calculate the rates for the Kuparuk, Lisburne and Endicott petroleum streams. One carrier (Mobil) filed three tariff revisions: one filing to revise the quality bank adjustment; one filing to revise the general transportation rates; one filing to revise the pumpability factors described above. The carriers request an effective date of January 1, 1995, on all the filings.

In filings designated as TL40-300 (Amerada), TL47-301 (Arco), TL47-311 (BP), TL60-304 (Exxon), TL43-308 (Mobil), TL44-310 (Phillips), and TL45-312 (Unocal) the carriers propose to increase the Quality Bank Adjustment to $.0159/barrel per one-tenth degree API gravity. The present Quality Bank Adjustment is $.015/barrel per one-tenth degree API gravity.

In filings designated as TL41-300 (AMERADA), TL46-301 (Arco), TL48-311 (BP), TL59-304 (Exxon), TL42-308 (Mobil), TL43-310 (Phillips), and TL44-312 (Unocal), the carriers propose to increase the pumpability factors described above. A summary of the present and prosed pumpability factors follows.

	PRESENT	PROPOSED
Kuparuk	1.084	1.095
Lisburne	.983	1.041
Endicott	1.062	1.088

1995 TAPS TARIFF FILINGS

Following is a summary of the presently assessed and the proposed intrastate tariff rates per barrel for general transportation of petroleum through the TAPS.

	Prudhoe Bay To North Pole		Prudhoe Bay to Valdez Marine Terminal		Prudhoe Bay to PetroStar Connection at Valdez	
	Present	Proposed	Present	Proposed	Present	Proposed
AMERADA (TL41-300)						
Sadlerochit Petroleum	$1.96	$2.42	$3.18	$3.83	$3.13	$3.81
Kuparuk Petroleum	2.13	2.65	3.43	4.20	3.41	4.17
Lisburne Petroleum	1.89	2.52	3.05	3.99	3.03	3.97
Endicott Petroleum	2.08	2.63	3.36	4.17	3.34	4.15
ARCO (TL46-301)						
Sadlerochit Petroleum	$2.22	$2.24	$3.62	$3.60	$3.61	$3.58
Kuparuk Petroleum	2.42	2.45	3.93	3.95	3.91	3.92
Lisburne Petroleum	2.15	2.33	3.49	3.75	3.47	3.73
Endicott Petroleum	2.37	2.43	3.85	3.92	3.83	3.90
BP (TL48-311)						
Sadlerochit Petroleum	$2.02	$2.29	$3.27	$3.72	$3.25	$3.70
Kuparuk Petroleum	2.19	2.51	3.54	4.07	3.52	4.05
Lisburne Petroleum	1.95	2.38	3.15	3.87	3.13	3.85
Endicott Petroleum	2.15	2.49	3.47	4.05	3.45	4.03
EXXON (TL59-304)						
Sadlerochit Petroleum	$2.01	$2.42	$3.25	$3.80	$3.23	$3.78
Kuparuk Petroleum	2.18	2.65	3.52	4.16	3.50	4.14
Lisburne Petroleum	1.94	2.52	3.13	3.98	3.11	3.94
Endicott Petroleum	2.14	2.64	3.45	4.13	3.43	4.11
MOBIL (TL41-308)						
Sadlerochit Petroleum	$1.92	$2.21	$3.09	$3.57	$3.08	$3.55
Kuparuk Petroleum	2.08	2.42	3.35	3.91	3.33	3.89
Lisburne Petroleum	1.85	2.30	2.98	3.72	2.96	3.70
Endicott Petroleum	2.04	2.40	3.28	3.89	3.27	3.87
PHILLIPS (TL43-310)						
Sadlerochit Petroleum	$2.21	$2.26	$3.56	$3.53	$3.56	$3.51
Kuparuk Petroleum	2.37	2.47	3.82	3.87	3.82	3.84
Lisburne Petroleum	2.12	2.35	3.43	3.68	3.43	3.65
Endicott Petroleum	2.35	2.45	3.79	3.82	3.79	3.82
UNOCAL (TL44-312)						
Sadlerochit Petroleum	$2.11	$2.39	$3.39	$3.98	$3.37	$3.94
Kuparuk Petroleum	2.29	2.62	3.68	4.33	3.66	4.31
Lisburne Petroleum	2.03	2.49	3.27	4.12	3.25	4.10
Endicott Petroleum	2.24	2.61	3.60	4.30	3.58	4.28

If after investigation the Commission finds rates or classifications different from those proposed by the TAPS carriers are reasonable, the Commission may approve rates or classifications which vary from those proposed.

Detailed information may be obtained from the TAPS carriers at the following addresses.

Amerada - c/o Albert S. Tabor, Jr., Vinson & Elkins L.L.P., 2500 First City Tower, 1001 Fannin Street, Houston, TX 77002-6760
Arco - 700 G Street, Suite 916, Anchorage, AK 99501
BP - 900 East Benson Blvd., P.O. Box 196648, Anchorage, AK 99519-0648
Exxon - P.O. Box 2220, Houston, TX 77252-2220
Mobil - P.O. Box 900, Dallas, TX 75221
Phillips - Kelly Keith, Tariff Representative, P.O. Box 1967, Houston, TX 77251-1967
Unocal - 1201 West Fifth Avenue, Los Angeles, CA 90017

The filings may be inspected at the offices of the Alaska Public Utilities Commission, 1016 West Sixth Avenue, Suite 400, Anchorage, Alaska 99501.

Any interested person may file with the Commission statements of views favoring or opposing these tariff filings. If you are a person with a disability who may need a special accommodation to comment on the proposed tariff revisions, please contact Pat Oldenberg at 263-2107 by December 16, 1994, to make any necessary arrangements.

Please file comments or petitions by December 23, 1994, to assure their consideration by the Commission prior to a final decision on this matter. Any statement filed with the Commission should clearly affirm that the interested person has filed a true copy of the statement with the TAPS carriers.

The Commission considers comments in determining the appropriate action to be taken. Filing comments will not make a person a party to the proceeding. To become a party, one must first petition to intervene in accordance with 3 AAC 48.110.

DATED at Anchorage, Alaska, this 8th day of December, 1994.

ALASKA PUBLIC UTILITIES COMMISSION
/s/ William E. Marshall For Robert A. Lohr, Executive Director

Publ: Dec. 13, 1994 AO-08-12-94

ATTACHMENT "B"

CO	1995 OWNERSH	TAPS TO VALDEZ SAD	KUP	LISB	ENDI	TO FBX SAD	KUP	LISB	ENDI	TO PETROSTAR SAD	KUP	LISB	ENDI
AMERADA HESS	0.015000	3.83	4.20	3.99	4.17	2.42	2.65	2.52	2.63	3.81	4.17	3.97	4.15
ARCO	0.213190	3.60	3.95	3.75	3.92	2.24	2.45	2.33	2.43	3.58	3.92	3.73	3.90
BP	0.499276	3.72	4.07	3.87	4.05	2.29	2.51	2.38	2.49	3.70	4.05	3.85	4.03
EXXON	0.203040	3.80	4.16	3.96	4.13	2.42	2.65	2.52	2.64	3.78	4.14	3.94	4.11
MOBIL	0.041762	3.57	3.91	3.72	3.89	2.21	2.42	2.30	2.40	3.55	3.89	3.70	3.87
PHILLIPS	0.013865	3.53	3.87	3.68	3.84	2.26	2.47	2.35	2.45	3.51	3.84	3.65	3.82
UNOCAL	0.013865	3.96	4.33	4.12	4.30	2.39	2.62	2.49	2.61	3.94	4.31	4.10	4.28
TOTAL	0.999998	3.71	4.06	3.86	4.03	2.31	2.52	2.40	2.51	3.69	4.04	3.84	4.01

WT AVG TARIFFS TO BUSTA BY TAPS SHIPPERS

TSMW96 - 93-94 ACTUAL DELIVERIES
~~TSMW94R.WK3~~, SHEET E
TSM LINE-BY-LINE CALCULATION

LINE #	ITEM	How Derived	1993	1994	1995	WT	WT TIMES $
142a	GVEA DELIVERIES - SADLEROCHIT	Referenced to	12.122	12.009	10.437	.7097	x $2.31 = $1.64
142b	GVEA DELIVERIES - KUPARUK	Referenced to	2.096	1.236	2.233	.1518	x $2.52 = $.38
142c	GVEA DELIVERIES - LISBURNE	Referenced to	0.235	1.326	1.527	.1038	x $2.40 = $.25
142d	GVEA DELIVERIES - ENDICOTT	Referenced to	0.000	0.006	0.510	.0347	x $2.51 = $.09
					SUM 14.707	1.0000	2.36

BST VOL WTAVG THIS TARIFF TO GVEA BASED ON ACTUAL VOL VOLUMES FROM EACH SHIPPER

10/31/95
09:30

TAPS Quality Bank

STREAM VALUES and TOTAL STREAM VOLUMES SHIPPED
September, 1995

SAMPLE LOCATION	STREAM	VOLUME (BBL)	STREAM VALUE ($/BBL)	TOTAL STREAM VALUE ($)
PBU IPA WEST	PBU IPA WEST	14,357,066	18.0349600000	258,929,111.03
PBU IPA EAST	PBU IPA EAST	11,135,655	18.0065200000	200,514,394.47
PBU IPA	PBU IPA	25,492,721	18.0225369233	459,443,505.50
PBU IPA	PBU IPA	25,492,721	18.0225369233	459,443,505.50
LISBURNE	LISBURNE	5,245,651	18.2353300000	95,656,177.05
ENDICOTT	ENDICOTT	2,386,651	17.9644600000	42,874,896.42
KUPARUK	KUPARUK	9,100,510	18.0577500000	164,334,734.45
PS #1	PS # 1 REFERENCE	42,225,533	18.0532786507	762,309,313.42
GVEA OFFTAKE	GVEA PASSING	38,384,128	18.0196800000	691,669,703.64
GVEA RETURN	GVEA RETURN	2,488,632	17.2498600000	42,928,553.59
GVEA	GVEA REFERENCE	40,872,760	17.9728077387	734,598,257.23
PSVR OFFTAKE	PSVR PASSING	39,835,701	17.9261700000	714,101,548.20
PSVR RETURN	PSVR RETURN	781,313	17.1300800000	13,383,954.20
PSVR	PSVR REFERENCE	40,617,014	17.9108563320	727,485,502.39

ATTACHMENT "C"

ICC-ARR-4008-Y

ALASKA RAILROAD CORPORATION

ICC-ARR FREIGHT TARIFF 4008-Y

Cancels

ICC-ARR Freight Tariff 4008-X

LOCAL CARLOAD RATES

APPLYING ON PETROLEUM AND PETROLEUM PRODUCTS

BETWEEN

STATIONS IN ALASKA ON THE ALASKA RAILROAD

PETROLEUM TARIFF

All changes affected by this reissue are new or reduced rates

Governed except as otherwise provided herein by rules and conditions of Alaska Railroad Tariff

ICC-ARR-3016-SERIES

Rates named in this tariff will not duplicate with rates named in any other tariff issued by Alaska Railroad Corporation.

The provisions published herein will, if effective, not result in an effect on the quality of the human environment.

Issued April 5, 1993 Effective April 10, 1993

Issued by: Tony M. Gojenola
Administrator Tariffs
P. O. Box 107500
Anchorage, Alaska 99510-7500

ATTACHMENT 'D'

RULES AND OTHER GOVERNING PROVISIONS

Item 5 **DESCRIPTION OF GOVERNING CLASSIFICATION**

This tariff is governed, except as otherwise provided, by the rules and provisions of ICC-UFC-6000-Series.

Item 10 **STATION LIST AND CONDITIONS**

This tariff is governed by the Official List of Open and Prepay Stations Tariff ICC-OPSL-6000 Series, issued by Station List Publishing Company, Agent.

Item 15 **EXPLOSIVES AND DANGEROUS ARTICLES**

For rules and regulations governing the transportation of explosives and other dangerous articles by freight, also specifications for shipping containers and restrictions governing the acceptance and transportation of explosives and other dangerous articles, see Bureau of Explosives Tariff ICC-BOE-6000 Series, T.A. Phemister, Agent.

Item 20 **REFERENCE TO TARIFFS, ITEMS, NOTES, RULES**

Where reference is made in this tariff to tariffs, items, notes, rules, etc., such references are continuous and include supplements to and successive issues of such tariffs and reissues of such items, notes, etc.

Item 25 **TERMINAL AND OTHER CHARGES, PRIVILEGES AND ALLOWANCES**

Shipments made under the rates contained in this tariff are entitles also to terminal and transit services and privileges, and are subject to the charges, allowances, rules and regulations legally applicable thereto, as provided in separately published, lawfully filed tariffs.

Item 40 **CONSECUTIVE NUMBERS**

Where consecutive numbers are represented in this tariff by the first and last numbers connected by the word "to or a hyphen, they will be understood to include both of the numbers shown.

If the first number only bears a reference mark, such reference mark also applies to the last number shown and to all numbers between the first and last numbers.

RULES AND OTHER GOVERNING PROVISIONS

CAPACITIES AND DIMENSIONS OF RAIL CARS — Item 45

For marked capacities, dimensions and cubical capacities of cars, see the Official Railway Equipment Register, ICC RER 6411-Series.

ALTERNATION - VARYING MINIMUM WEIGHTS — ITEM 70

When two or more carloads rates are provided in the same item for application on the same commodity from and to the same points, apply that rate which results in the lowest charge based upon the actual or authorized estimated weight of the shipment, but not less than the minimum weight published in connection with the rate used.

RATES APPLICABLE FROM INTERMEDIATE POINTS — ITEM 80

When no rates are provided from a named origin point, apply the rate named from the next more distant point.

RATES APPLICABLE TO INTERMEDIATE POINTS — ITEM 85

When no rates are provided to a named destination point, apply the rate named to the next more distant point.

SHIPMENTS HANDLED TO OR FROM FERRY — ITEM 195

On all shipments handled to or from Ferry, a surcharge of $175.00 per car will be assessed in addition to all other charges, when set-out or pick-up is requested on days other than those on which local train service is provided.

ARBITRARIES TO OR FROM FAIRBANKS INTERNATIONAL AIRPORT — ITEM 260

Except as otherwise provided in individual rate items, through commodity rates to or from Fairbanks International Airport will be constructed by adding the arbitrary named herein to the otherwise applicable rate to or from Fairbanks.

When the applicable rate is expressed in:	Apply the following Arbitrary
Cents Per Gallon	$0.00594 (.594 cents) per gallon
Cents Per 100#	$0.09 Per 100 Pounds

RULES AND OTHER GOVERNING PROVISIONS

ITEM 347 **VOLUME SHIPMENTS**

Note: Rates making reference hereto will apply only when the terms and conditions of this rule are fully met.

(A) The minimum number of gallons is applicable per each time period specified in the governing rate item, and is based on the shell gallonage capacity of the car(s) shipped.

(B) Shipper desiring to use the services described, and at rates subject to this rule, must comply with the following rules and conditions. Specifically, shippers must:

1. Provide Alaska Railroad Corporation a written notice in advance, of its intention to make shipments subject to this item. Such notice must include the following information:

   a. Actual or Minimum gallons to be shipped.
   b. The beginning date on which records are to be kept.
   c. The origin and destination points of shipment.

2. Cite this item on each bill of lading as applicable authority covering shipments made hereunder.

3. Maintain a complete and accurate record of all gallonage transported.

4. Furnish an affidavit at the close of the time period setting forth the total gallonage shipped.

5. Permit an authorized representative of Alaska Railroad Corporation reasonable access to shipper's records to verify compliance with provisions of this item, and to reconcile gallonage shipped.

(C) Charges will be assessed at rates applicable to volumes specified in shipper's notice. At the end of each time period the total gallonage will be ascertained. If actual amount shipped is less than the minimum at which rated, Charges will be adjusted to the lesser of:

1. The minimum specified in the notice at the rates in connection therewith.

2. The otherwise applicable rate in connection with the actual volume shipped.

(D) Prior to the beginning of each specified period of time, the shipper shall furnish an indemnity bond satisfactory to Alaska Railroad Corporation, in an amount adequate and sufficient to fully cover the difference between charges assessed at rates made subject to this item and charges otherwise provided, in the event the aggregate gallonage required is not met during that period of time.

COMMODITY RATES

ITEM 405

LIQUIFIED PETROLEUM GAS, in tank cars, subject to actual gallonage at 60 degrees fahrenheit, and agreed weight of 4.25 lbs per gallon. Rates in cents per 100 lbs. Minimum CL 127,500 lbs

Rates in cents per 100 Lbs. CL Minimum Weight 127,500#			
Between → And ↓	Anchorage	Crown Point or Moose Pass	Palmer
Fairbanks	198	231	138
Anchorage		51	51

ITEM 500

PETROLEUM PRODUCTS, as described under that heading in UFC, in bulk in tank cars. Carload Minimum 20000 gallons. Subject to item 347. Rates in cents per gallon.

BETWEEN ANCHORAGE AND	ANNUAL MINIMUM VOLUME IN GALLONS
	30 MILLION
FAIRBANKS, NORTH POLE	8.75

ITEM 520

PETROLEUM PRODUCTS, as described under that heading in UFC, in bulk in shipper owned or leased tank cars. Railroad will not pay per diem, mileage, or other car-hire charges.
Carload Minimum 20000 gallons. Subject to item 347. Rates in cents per gallon.

BETWEEN ANCHORAGE AND	ANNUAL MINIMUM VOLUME IN GALLONS		
	2.5 MILLION	5 MILLION	[illegible] MILLION
NORTH POLE	Rate	Rate	Rate
	8.22	7.94	7.50

COMMODITY RATES

ITEM 340

PETROLEUM PRODUCTS, as described under that heading in UFC, in bulk in tank cars. Carload Minimum 20,000 gallons, except as noted. Rates in cents per Gallon.

BETWEEN AND:	NORTH POLE	ANCHORAGE	WHITTIER (see Note 2)
ANCHORAGE	11.88		4.98
CANTWELL	9.37	10.23	15.64
CHULITNA	10.03		
CLEAR SITE	5.54	13.79	18.15
COLORADO		9.37	14.92
CURRY	10.36		
DENALI PARK	7.39	11.09	16.90
ELELSON	2.11		
EKLUTNA		2.18	5.48
FAIRBANKS	2.44	11.88	18.15
FT WAINWRIGHT	2.11	14.32	18.15
HEALY	6.73	12.28	16.90
MOOSE PASS		3.70	5.02
NENANA	5.02	14.19	18.15
PALMER/WASILLA	11.48	3.30	6.27
PORTAGE		2.31	2.31
SEWARD (see Note 1)		4.72	5.02
SUNTRANA	7.13	12.28	16.90
TALKEETNA		5.54	10.96
WHITNEY		1.98	3.83

Note 1: (A) Rates include wharfage at Seward
(B) CL Minimum 10,000 Gallons

COMMODITY RATES

ITEM 550 (new)

PETROLEUM PRODUCTS, as described under that heading in UFC, in bulk in shipper owned or leased tank cars. Railroad will not pay per diem, mileage, or other car-hire charges.
Carload Minimum 20,000 gallons, except as noted. Rates in cents per Gallon.

BETWEEN → AND: ↓	NORTH POLE	ANCHORAGE
ANCHORAGE	8.44	
CANTWELL	3.78	4.66
CLEAR SITE	2.45	6.03
DENALI PARK	3.29	5.15
FAIRBANKS	1.55	7.58
FT WAINWRIGHT	1.55	8.18
HEALY	3.11	5.30
MOOSE PASS		2.52
NENANA	2.82	6.28
PALMER/WASILLA	7.05	1.53
PORTAGE		1.64
SEWARD (see Note 1)	10.71	3.97 (10) 4.72
SUNTRANA	3.11	5.30
TALKEETNA		2.87
Elmendorf AFB Fort Richardson		1.00

Note 1: Rates include wharfage at Seward

(10) CL Minimum 10,000 Gallons

EXPLANATION OF ABBREVIATIONS

(A) .... Increase (R) ... Reduction
No ..... Number NOS .. Not otherwise specified in this Tariff.
UFC ... Uniform Freight Classification, ICC-UFC 6000 Series issued by Uniform Classification Committee, Agent.
VIZ. .... Namely

MAPCO ALASKA PETROLEUM INC.

Feb 14, 1996

Ms. Sara Fisher
Legislative Assistant for Rep. Gene Therriault
State Capitol
Juneau, AK 99801-1182
Fax: 907 465 3884

Dear Sara:

I want to very briefly clarify and expand on our telephone conversations regarding the attached comparisons of Singapore versus Alaska market prices for aviation jet fuels. The attached was previously submitted to you on February 6, 1996, with only a verbal discussion of the significance of the information.

In order to understand the dynamics of the Anchorage market for jet fuel, it is necessary to know: (1) the pricing basis for fuel sold in this market and (2) the possible sources for fuel that might economically compete for sales to carriers operating in the market. A very large percentage of jet sold to commercial carriers in Anchorage is sold based on a formula which relates the purchase price to the Los Angeles spot jet fuel market plus a differential. In theory, this differential represents the transportation cost between L. A. and Anchorage. (This market was chosen by seller and consumer alike due to the liquidity of the market and the ability to determine spot prices.) Unfortunately for in-state refiners, this differential has been shrinking over the past several years and does not today accurately represent the cost of shipping jet from the L.A. trade center to Alaska.

If we look at the historical prices of Singapore jet fuel and add actual average transportation costs , we find this price compares very favorably to historical Anchorage pricing based on L. A. jet plus the current market (location) differential. In fact, this is the data we provided you on February 6. If we take the case of Singapore values plus $3.00 per barrel transportation cost, which is approximately the cost for 1994 and 1995, we see 17 of the 24 months in this period in which Singapore jet could have been landed in the Anchorage market at prices lower than the Anchorage contract price. On average, in both years, Singapore product competes economically delivered into the Anchorage market.

Since both Singapore and Alaska jet fuel producers are assumed to be inherently profitable, importation and sale of tax free Singapore jet at Alaska market prices adds to the foreign refiners profit margin. Having to match the tax break given to foreign refiners by discounting prices 3.2 cents per gallon in order to remain competitive, detracts from the Alaska refiners profitability. This is inherently unfair and we are simply seeking a leveling of the playing field.

Thank you for your time.

Best Regards,

Bonnie J. Garner Michael L. Smith

PLEDGED TO PREMIERSHIP

1076 OCEAN DOCK ROAD • ANCHORAGE, ALASKA 99501-1199
PHONE (907) 276-4100 • TELECOPY (907) 276-3583

05-Feb-96

(2)

MAPCO ALASKA PETROLEUM Inc.
Product Supply & Distribution
FTZ Economics

	MOPS Kerosene $/BBL	Frt/BBL $3.00	MOPS Kerosene CPG	Platt's LA P/L Kero CPG	Frt/CPG $0.06	MOPS – LA
Jan-94	22.49	25.49	0.6069	0.5000	0.5600	0.0469
Feb-94	21.45	24.45	0.5822	0.5485	0.6085	-0.0263
Mar-94	20.73	23.73	0.5649	0.5658	0.6258	-0.0609
Apr-94	21.60	24.60	0.5857	0.5115	0.5715	0.0142
May-94	20.94	23.94	0.5699	0.5078	0.5678	0.0021
Jun-94	20.14	23.14	0.5509	0.5088	0.5688	-0.0179
Jul-94	20.73	23.73	0.5649	0.5334	0.5934	-0.0285
Aug-94	20.69	23.69	0.5639	0.5511	0.6111	-0.0471
Sep-94	22.12	25.12	0.5981	0.5630	0.6230	-0.0249
Oct-94	23.30	26.30	0.6262	0.5879	0.6479	-0.0216
Nov-94	24.29	27.29	0.6497	0.6058	0.6658	-0.0160
Dec-94	22.51	25.51	0.6074	0.5191	0.5791	0.0283
1994	21.72	24.72	0.5886	0.5419	0.6019	-0.0132
Jan-95	22.61	25.61	0.6097	0.5540	0.6140	-0.0043
Feb-95	21.51	24.51	0.5835	0.5466	0.6066	-0.0231
Mar-95	20.55	23.55	0.5607	0.5307	0.5907	-0.0299
Apr-95	22.08	25.08	0.5972	0.5536	0.6136	-0.0164
May-95	22.91	25.91	0.6169	0.5499	0.6099	0.0070
Jun-95	22.04	25.04	0.5961	0.5360	0.5960	0.0001
Jul-95	21.04	24.04	0.5724	0.5318	0.5918	-0.0194
Aug-95	20.80	23.80	0.5667	0.5567	0.6167	-0.0500
Sep-95	21.56	24.56	0.5847	0.5776	0.6376	-0.0530
Oct-95	22.77	25.77	0.6137	0.5830	0.6430	-0.0293
Nov-95	24.71	27.71	0.6598	0.6106	0.6706	-0.0108
Dec-95	28.62	31.62	0.7529	0.6341	0.6941	0.0588
1995	22.67	25.67	0.6111	0.5644	0.6244	-0.0133

ftz_fuel

ALASKA AIR CARRIERS ASSOCIATION
1117 E. 35th Avenue, Suite 102
Anchorage, Alaska 99508
(907) 277-0071 Fax (907) 277-0072

February 28, 1996

Via Telecopier

The Honorable Mark Hanley
The Honorable Gene Therriault
Alaska House of Representatives
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Ref: HB 362, Jet Fuel Tax Exemption; Questionable Analyses and Unanswered Questions.

Gentlemen,

The Alaska Air Carriers Association has continuing interest in legislative consideration of HB 362. While we express no opinion at this time about what tax policies may be in the citizens' best interests, we are hopeful that legislators and administration officials will have the benefit in their deliberations of accurate facts, all the facts, and credible analyses.

As we understand it, proponents of HB 362 argue: 1) Federal law prevents the state from collecting the 3.2¢ per gallon tax on imported foreign jet fuel (but not domestic fuel) stored in the Anchorage FTZ, when withdrawn for "continuing" flights; 2) With the 3.2¢ price advantage, foreign fuel will substantially displace domestically refined fuel in the Anchorage International Airport market; and, 3) The best way to solve this problem is to exempt from the tax both foreign and domestic jet fuel for continuing flights.

We believe that all three arguments are based on questionable assumptions. On the first argument, we have attached an Analysis that makes a compelling case that Alaska's aviation fuel tax on continuing foreign flights would *not* be preempted by federal law -- that Alaska has full right, power and authority to tax all aviation fuel, imported or domestic, whether it goes through the FTZ or not, whether sold for flights originating in foreign countries and continuing through Anchorage to the Lower 48, or flights originating in Anchorage and bound for other U.S. destinations, or flights originating in Anchorage and bound for foreign destinations.

If you so desire, we will readily furnish a more in-depth briefing.

On the proponents' second and third arguments, there seem to be any number of unanswered questions.

Even assuming preemption would take place, is it a realistic possibility that foreign fuel would substantially take over the Anchorage market? We wonder whether the realities of high seas economics and logistics requirements permit this possibility. We also wonder what role an attempt to avoid the current federal 4.3¢ per gallon tax may have played in the recent foreign fuel dockings. Last, we wonder if any further foreign fuel dockings are currently scheduled; and if not, why not?

Assuming preemption and assuming further a realistic potential for market takeover, is there a better solution to be found in the FTZ management? Surely there must be some simpler way to solve this perceived fuel tax problem at the Anchorage FTZ boundary. We wonder if the Legislature, the Governor's office and the Mayor's office have examined all the options involving FTZ management and operation.

Please accept these comments in the spirit of our attempts to assist in the development of sound public policy. If you have any questions or comments, please do not hesitate to call.

Sincerely,

Kim Daniels Ross

Kimberly S. Daniels Ross
Executive Director

cc: House Finance Committee
House Transportation Committee
Commissioner Joe Perkins, DoT/PF
Larry E. Myers, DoR
AACA Board of Directors

ALASKA AIR CARRIERS ASSOCIATION

1117 E. 35th Avenue, Suite 102
Anchorage, Alaska 99508
(907) 277-0071 Fax (907) 277-0072

February 28, 1996

Analysis of Preemption Arguments
Alaska Sales Taxes on Aviation Fuel

The Alaska Department of Revenue has stated its opinion that federal law preempts the state sales tax on imported fuel transported through the FTZ, citing *McGoldrick v. Gulf Oil Corporation*, 309 U.S. 414 (1940). We believe the DoR is seriously mistaken, and that *Wardair Canada, Inc. v. Florida Department of Revenue*, 477 U.S. 1 (1986) compels a different conclusion: The state of Alaska has full right, power and authority to tax all the aviation fuel, imported or domestic, whether it goes through the FTZ or not, whether sold for flights originating in foreign countries and continuing through Anchorage to the Lower 48, or flights originating in Anchorage and bound for other U.S. destinations, or flights originating in Anchorage and bound for foreign destinations. *Wardair Canada*, and not *McGoldrick*, states the controlling law for our purposes.

Congress may preempt state tax laws under Congress' power "To regulate commerce with foreign nations, and among the several states ...." U.S. Constitution, Art. I. § 8, cl. 3. Preemption will not be inferred, however, unless there is clear evidence of Congress' intent for that result:

> [W]e have consistently emphasized that the first and fundamental inquiry in any pre-emption analysis is whether Congress intended to displace state law, and where a congressional statute does not expressly declare that state law is to be pre-empted, and where there is no actual conflict between what federal law and state law prescribe, we have required that there be evidence of a congressional intent to pre-empt the *specific field* covered by the state law.

Wardair Canada, 477 U.S. at 6 (emphasis added).

Wardair Canada upheld a Florida state 5% sales tax on aviation fuel used in flights to foreign destinations, in the face of a Constitutional challenge on Foreign Commerce Clause grounds. The Supreme Court held that Congress did not impliedly forbid such taxes, but rather, Congress expressly permitted and invited such taxes.

First, the Court looked to the relevant federal statutes. As part of Congress' comprehensive scheme for imposing federal excise taxes on domestic and foreign air transportation, and prohibiting certain state taxes, Congress provided, in 1973, by statute, that, "[A] State may levy ... sales or use taxes on the sale of goods or services ...." 49 U.S.C. §40116(e)(1); formerly, 49 U.S.C. §1513(b). The Court stated,

> [N]ot only is there no indication that Congress wished to preclude state sales taxation of *airline fuel*, but, to the contrary, the Act expressly permits States to impose such taxes.... [W]hat [§40116(e)] shows is that, to the degree that Congress considered the power of the States to tax air travel, it expressly and unequivocally permitted the States to exercise that authority. In other words, rather than prohibit state regulation in the area, Congress invited it. This is not the stuff of pre-emption.

477 U.S. at 7 (emphasis added).

Second, the Court examined,

> (1) the Chicago Convention on International Civil Aviation, ... to which the United States and 156 other nations ... are parties; (2) a Resolution ... adopted ... by the International Civil Aviation Organization (ICAO) ... [and] (3) more than 70 bilateral agreements ... into which the United States has entered with various foreign countries dealing with international aviation.

477 U.S. at 9. The Court then discussed these expressions of Congressional policies on international aviation:

> [W]hat these documents show is while there appears to be an international aspiration on the one hand to eliminate all impediments to foreign air travel -- including taxation of fuel -- the law as it presently stands acquiesces in taxation of the sale of that fuel by political subdivisions of countries.

477 U.S. at 10.

> [T]he United States has, since the time that the [Chicago] Convention came into force, become a party to more than 70 bilateral aviation agreements, and in not one of these agreements has the United States agreed to deny the States the power asserted by Florida in this case.

477 U.S. at 11. The *Wardair* Court concluded,

> What all this makes abundantly clear is that the Federal Government has not remained silent with regard to the question whether States should have the power to impose taxes on aviation fuel used by foreign carriers in international travel.... It would turn the dormant Commerce Clause analysis upside down to apply it where the Federal Government has acted, and to apply it in such a way as to reverse the policy that the federal Government has elected to follow.

477 U.S. at 12. *See also*, *Itel Containers International Corporation v. Joe Huddleston, Commissioner of Revenue of Tennessee*, 507 U.S. 60 (1993).

It would turn the *McGoldrick* principles "upside down" to apply them to reach a preemption conclusion in the case of Anchorage FTZ fuel. *McGoldrick* held that New York sales tax was preempted in a case of 1934 and 1935 sales of fuel delivered alongside *foreign bound* vessels in New York City, when that fuel had originally been imported as *crude petroleum*, duty free, into *bonded warehouses*, and *refined* into fuel while in bond. The bonded fuel was *segregated* from domestic goods, and its duty free status was conditioned upon it *never being landed at any port or place in the United States or its possessions*.

The *McGoldrick* Court found, on the facts of that particular case, a *comprehensive scheme* adopted by Congress, an essential purpose of which was to "enable American refiners to meet foreign competition", through the federal tax relief. Allowing the New York sales tax would have frustrated that purpose. 309 U.S. at 427, 426.

In Anchorage, *disallowing* the state tax on foreign imported fuel would put American refiners -- such as Mapco, Petro Star, Tesoro and Arco -- at a competitive disadvantage to foreign refiners. It would also put domestic air carriers -- such as Alaska, Delta, United and Reno Air -- at a competitive disadvantage to foreign and domestic air carriers taking advantage of the tax free fuel on continuing flights. This is not consistent with the principles of *McGoldrick*. "Domestic producers and local taxpayers would thus 'subsidize' the ... [foreign producers of imported fuel and competing airlines with flights originating in foreign countries]." *R. J. Reynolds Tobacco Company v. Durham County*, 479 U.S. 130, 145 (1986).

McGoldrick relied heavily on the provisions of §309 of the Tariff Act of 1930, with its specific provisions for federal tax free status for fuel for foreign bound vessels. That statute, now 19 U.S.C. §1309, was amended in 1960, twenty years after *McGoldrick*, to include a new provision:

> The provisions for free withdrawals made by this subsection (a) shall not apply to *petroleum products* for vessels or aircraft in voyages or flights exclusively between Hawaii or Alaska and any airport or Pacific coast seaport of the United States.

(Emphasis added.) This belies any Congressional intent, based on a *McGoldrick* analysis, to preempt state taxation on fuel sold for flights between Anchorage and the Lower 48.

The Anchorage FTZ situation is distinguishable from *McGoldrick* in other significant respects. The bonded fuel will not be crude petroleum, to be refined in a bonded warehouse. The bonded fuel will not be segregated; it will be commingled with domestic and other unbonded fuel. Some portion of it will necessarily be again landed in the United States. Some of the bonded fuel will not be exported. It will be used for flights that are not "actually engaged in foreign trade", but between U.S. airports. There is no regulation, incorporated by reference by Congress, that provides, " 'imported goods in bonded warehouse are exempt from taxation under the general laws of the several States.' " There is no "comprehensive scheme ... calculated to insure the devotion of the manufactured oil exclusively to that purpose [for use in foreign bound vessels]." 309 U.S. at 426, 427.

McGoldrick simply is not good authority for the proposition that the Alaska sales tax on aviation fuel would be preempted.

> In undertaking this [preemption] analysis ... we must be mindful of the principal that "federal regulation of a field of commerce should not be deemed preemptive of state regulatory power in the absence of persuasive reasons -- either that the nature of the regulated subject matter permits no other conclusion, or that the Congress has unmistakably so ordained."

Reynolds Tobacco, supra, at 140 (quoting *Florida Lime & Avocado Growers, Inc. v. Paul,* 373 U.S. 132, 142). Unless and until one can demonstrate that Congress has *unmistakenly ordained* for U.S. refiners to be put at a competitive disadvantage, and that Congress has *unmistakenly ordained* for domestic air carriers to be put at a competitive disadvantage, *McGoldrick* can not credibly support a preemption argument.

It is true that *Wardair Canada* does not deal with Foreign Trade Zones, but neither does *McGoldrick.* We find nothing in the Foreign Trade Zone Act or the regulations that conflicts with the clearly expressed Congressional policies to allow state aviation fuel taxes, as elicited in *Wardair Canada. See also, Itel Containers International Corporation v. Joe Huddleston, Commissioner of Revenue of Tennessee,* 507 U.S. 60 (1993).

In conclusion, Alaska is free to tax aviation fuel as it may wish in the circumstances.

The Alaska Air Carriers Association

REPRESENTATIVE
GENE THERRIAULT
P O Box 55326
North Pole, Alaska 99705
(907) 488-0862

House District 33

Alaska State Legislature

While in Juneau
State Capitol
Juneau, Alaska
99801-1182
(907) 465-4797

House Of Representatives

MEMORANDUM

TO: Representative Mark Hanley, Co-Chair
House Finance Committee

FROM: Representative Gene Therriault

DATE: February 5, 1996

SUBJECT: Scheduling of HB 362

I respectfully request House Bill 362, "An Act extending the motor fuel tax exemption for fuel sold for use in jet propulsion aircraft to fuel used in those aircraft for flights that continue form a foreign country" be scheduled for a hearing in the House Finance Committee.

As you may be aware, two tankers filled with tax exempt foreign-produced fuel were brought into Alaska during 1995 through a foreign trade zone (FTZ). The FTZ allows for the preemption of state taxation under federal law. It is anticipated this practice of using the FTZ to import fuel will increase as airlines move to purchase the tax exempt fuel for use in foreign flights at a lower cost than taxable Alaska produced fuel.

I have introduced HB 362 in an effort to provide a level playing field to Alaska producers by allowing the tax exemption for all fuel used in foreign flights. The House Transportation committee considered HB 362 and reported it out of committee with a vote of 4 "do pass" and 3 "no recommendation."

The following items are attached:

1. Sponsor statement
2. Department of Revenue memo
3. Fairbanks Chamber of Commerce resolution
4. Letters from FedEx and Northwest airlines
5. Editorial from Fairbanks Daily News-Miner

I appreciate your consideration of my request.

attachments (5)

REPRESENTATIVE
GENE THERRIAULT
P O. Box 55326
North Pole. Alaska 99705
(907) 488-0862

House District 33

Alaska State Legislature

While in Juneau
State Capitol
Juneau. Alaska
99801-1182
(907) 465-4797

House Of Representatives

HB 362 Extending the motor fuel tax exemption for fuel sold for use in jet propulsion aircraft to fuel used in those aircraft for flights that continue from a foreign country

SPONSOR: Rep. Gene Therriault

SPONSOR STATEMENT:

House Bill 362 extends the motor fuel tax exemption for fuel used in aircraft for flights that continue from a foreign country. Currently, the state of Alaska provides a tax exemption for fuel used only in flights to foreign countries.

Federal law preempts state taxation of imported aviation fuel transported through a foreign trade zone for use in aircraft during foreign flights. The federal definition of "foreign flight" includes flights originating from and flights continuing to a foreign country.

Two tankers filled with tax exempt foreign-produced fuel were brought into Alaska during 1995. It is anticipated this practice will increase as airlines move to purchase the tax exempt fuel for use in foreign flights at a lower cost than taxable Alaska produced fuel.

HB 362 is needed to provide a level playing field to Alaska producers by allowing the tax exemption for all fuel used in foreign flights.

MEMORANDUM

State of Alaska
Department of Revenue

TO: File

DATE: October 31, 1995

TELEPHONE NO. 269-6620

SUBJECT. Foreign Aviation Fuel

FROM. Larry E. Meyers
Director
Income and Excise Audit Division

All sales of aviation fuel in Alaska are subject to tax unless exempt by statute. One such exemption, AS 43.40.100(2)(B), excludes from taxation aviation fuel sold for use "in flights to foreign countries." This state exemption does not apply to fuel sold for use in flights from foreign countries which refuel in Alaska and travel on to U.S. destinations.

However, it appears state taxation of imported aviation fuel withdrawn from a foreign trade zone (FTZ) in Alaska for use in foreign commerce is preempted by federal law. This FTZ preemption applies to imported fuel sold for use in flights with an origin or destination in a foreign country. The federal preemption is broad because the federal definition of a "foreign flight" differs from the Alaska definition. Thus, sales of imported aviation fuel within a FTZ to flights originating in a foreign country which refuel in Alaska and continue on to another U.S. destination are exempt from the Alaska fuel tax.

Greater Fairbanks Chamber of Commerce

709 Second Avenue (907) 452-1105
Fairbanks, Alaska 99701 FAX (907) 456-6705

Introduced by: Governmental Affairs Committee
Date introduced: November 6, 1995
Date passed: November 13, 1995
Date transmitted: November 14, 1995

RESOLUTION 95-1106.3

A RESOLUTION BY THE GREATER FAIRBANKS CHAMBER OF COMMERCE IN SUPPORT OF THE 9-LS1292\A. (SEE ATTACHED)

WHEREAS, foreign trade zones (FTZ) are established to encourage value added processing in Alaska for items bound for foreign destinations; and

WHEREAS, there are several FTZ locations in Anchorage that allow such activity, including at the Anchorage International Airport; and

WHEREAS, in early October, a tanker load of foreign refined jet fuel came into Anchorage Airport fueling system for use under the FTZ; and

WHEREAS, this foreign processed fuel is able to take advantage of the FTZ to the disadvantage of Alaska based refiners who process Alaska royalty crude, employ Alaskans in the value added refining process, pay corporate taxes and others fees, and in some cases jet fuel to Anchorage on the State owned Alaska Railroad;

NOW THEREFORE BE IT RESOLVED that the Alaska State Chamber of Commerce goes on record in support of the attached work draft 9-LS1292\A to amend AS 43.40.10 (2), thus permitting in-state refiners the same tax privileges in selling jet fuel to international carriers operating flights either to or from foreign destinations, irrespective of whether that fuel is sold through an FTZ; and

BE IT FURTHER RESOLVED that this resolution be distributed to:

The Honorable Tony Knowles, Governor of the State of Alaska
Alaska State Legislature
Alaska State Chamber of Commerce
All Alaska Chambers
Fairbanks Convention and Visitor's Bureau
City of Fairbanks
City of North Pole
Fairbanks North Star Borough

PASSED on November 13, 1995 by the Greater Fairbanks Chamber of Commerce Board of Directors.

Paul Massey
1st Vice Chair

William J. Robertson
President/CEO

WITH CONCURRENCE from the following Fairbanks area Alaska State Chamber of Commerce Representatives.

Jeff Cook
James Dodson
Dr. Hugh Fate
Bart LeBon
Paul Massey

Federal Express Corporation
Fuel Administration
2520 Nonconnah Boulevard
Suite 307
Memphis, TN 38132

U.S. Mail PO Box 727
Memphis, TN 38194-1910

Aviation Fuels 901-922-5110
Ground Fuels 901-922-5410
Fax 901-922-4586

FedEx
Federal Express

December 27, 1995

Ms. Bonnie J. Garner
Aviation Fuel Sales Manager
Mapco Alaska Petroleum, Inc.
1076 Ocean Dock Road
Anchorage, AK 99501-1199

Dear Bonnie:

Federal Express understands Mapco Alaska Petroleum's continuing interest in competitively supplying jet fuel in Anchorage, Alaska. We are also aware that our use of tax-exempt jet fuel through the Foreign Trade Zone has an adverse impact on Mapco's ability to remain competitive in the Anchorage market. Specifically, Federal Express is able to reduce its tax burden on in-bound international flights by $0.032 per gallon through the use of tax exempt U.S. Customs bonded jet fuel.

Federal Express has enjoyed a long term relationship with Mapco and appreciates Mapco's reliable supply and consistent quality of jet fuel at competitive prices at Anchorage International Airport. However, the $0.032 per gallon Alaska Motor Fuel Tax gives a significant tax advantage to foreign refined turbine fuel and foreign turbine fuel suppliers through the Free Trade Zone, since those foreign suppliers are exempt from the $0.032 per gallon tax.

If Federal Express is to continue purchasing jet fuel on a competitive basis from Alaskan in-state refiners for international flights transiting Anchorage, the $0.032 per gallon Alaska Motor Fuel Tax applicable to in-state refiners and Federal Express must be rescinded or exempted so that parity and equal competition might return to the market. Mapco's assistance in revising the Alaska Motor Fuel Tax law would allow our company and others to continue purchasing jet fuel from in-state refiners on a competitive basis and would reduce the necessity for Federal Express to purchase jet fuel from foreign refiners or brokers, or seeking alternative airports/countries for refueling our international flights.

Sincerely,

William H. Stark
Managing Director
Fuel Administration

cc: Chris Bolen
David Carpenter
Cheryl Yates
Doug Buttrey

whs139/lr

JAN 05 '96 10:52AM MAPCO ALASKA PETRO INC P.2/2

[RECEIVED 01/05 11.16 1996 AT 48807 PAGE 1 (PRINTED PAGE 1)]

JAN 05 '96 10:52AM MAPCO ALASKA PETRO INC P.1/2

Post-it™ Fax Note 7672

To	Jeff Cook	# of Pages	2
Company		Today's Date	1/4/95
		From	Tara
		Company	
Location		Location	
Fax #	Telephone #	Fax Charge	
Comments		Fax #	Telephone #
		Original Disposition	☐ Destroy ☐ Return ☐ Call for pickup

Douglas J. Podolak
President

NWA Fuel Services Corporation 612 727-0246
A Northwest Affiliate 612 726-4851 Fax
Department A4180
5101 Northwest Drive
St. Paul MN 55111-3034

December 27, 1995

Ms. Bonnie Garner
MAPCO Alaska Petroleum Inc.
1076 Ocean Dock Road
Anchorage, AK 99501-1199

Dear Bonnie:

I am writing in regard to the Alaska Motor Fuel Tax. Northwest Airlines has enjoyed a long contractual history with MAPCO, however, as a participant in a very cost competitive industry Northwest must pursue the lowest net cost fuel supply available. As you are aware foreign refined jet fuel is offered by your competitors exempt from the 3.2 CPG Alaska Motor Fuel Tax. We are concerned that MAPCO will not be able to remain competitive for Northwest Airlines' business at ANC when facing the substantial price advantage of imported fuel.

We strongly support your efforts to effect a change in the Alaska Motor Fuel Tax to exempt all jet fuel used in international service as defined by the U. S. Customs authority. This definition includes outbound and inbound flights that include an international point in its routing. Amending the tax application to match the Federal definitions would eliminate confusion and the unintended effect of subsidizing the importation of foreign jet fuel by your competitors.

We trust you will be successful in your effort to change this tax law and would be happy to provide assistance. Northwest looks to continue MAPCO as a major supplier in ANC and hopes for your early success in this effort.

Regards,

[signature]

Douglas J. Podolak

cc: M. L. Smith
R. J. Van Der Wege

Fri 11/4/95

Sam Bishop, Opinion Page Editor; 456-6661 (Ext. 274)

FAIRBANKS
Daily News-Miner
"Independent in All Things . . . Neutral in None"
Established in 1903
CHARLES L. GRAY, Publisher Emeritus
PAUL J. MASSEY, Publisher
KELLY BOSTIAN, Managing Editor
SAM BISHOP, Editorial Page Editor

Subsidizing foreign fuel

The foreign trade zone fad, which swept up cities around the country during the past decade, has come back to bite Alaska.

Foreign trade zones encourage companies to bring foreign materials into the state for manufacturing, which creates jobs. The encouragement is provided by exempting the goods from customs tariffs and other taxes.

Anchorage established such a zone at its port several years ago. Not much happened until early last month, when an oil tanker full of jet fuel arrived from the island of Aruba, off the Venezuelan coast.

The owner, Kuwait Petroleum Co., promptly sold 200,000 gallons to the jet fuel distributor at Anchorage International Airport. The Kuwait company offered a very competitive price because the free trade zone exempted them from a 3.2-cent per gallon state aviation fuels tax on any fuel used for international flights.

With that advantage, the Kuwaitis beat the competition—fuel from Mapco's North Pole refinery. Mapco normally supplies a substantial portion of the jet fuel used in Anchorage's international flights.

Mapco officials are not pleased with the trade zone. Why should we be giving tax breaks to foreign companies so they can out-compete local companies? The simple answer is that we shouldn't.

Mapco is asking legislators to exempt their fuel used on international flights from the 3.2-cent state tax. State law already does just that, in part. Fuel used to power planes flying *toward* foreign lands is exempt from the tax. Mapco wants legislators also to exempt fuel used to fill planes *coming from* other countries.

That would cost the state some revenue at a time when it has serious problems balancing its budget. However, if Kuwait Petroleum takes over the Anchorage jet fuel business, the effect would be the same—no revenue from international fuel sales. And Kuwait Petroleum isn't employing refinery and railroad workers, paying state and local taxes or sponsoring numerous civic events here.

Professional Profiles

ATS

HB 362

HERBERT I. GOODMAN
Chairman

Herbert Goodman holds a BS degree from the University of Pittsburgh and MBA and MA degrees from Harvard University.

After seven years in the U. S. Foreign Service, with assignments in Europe, Asia and the State Department in Washington, he joined Gulf Oil Corporation where he worked for 27 years in international crude and product sales, purchasing and trading. From 1972 until Gulf merged into Chevron in 1984, he was President & CEO of Gulf Oil Trading Company, and Gulf Trading and Transportation Company as well as serving as a member of the Corporation's Management Committee. When Gulf was acquired by the Chevron Corporation, he arranged the buyout of the trading division, and became President and CEO of GOTCO Limited, an independent oil trading company. In 1988, after leaving GOTCO, he and several colleagues formed Applied Trading Systems, Inc.

He has more than 35 years of experience in the energy industry. He was instrumental in establishing Gulf Oil Corporation as the principal crude oil supplier to the developing countries in the 1950's through 1970's; organized and developed the first oil industry in Korea including a refinery and petrochemical plants, and established other grass roots refineries in Japan, Taiwan and the Philippines; negotiated contracts for the purchase and the sale of crude oil with the highest governmental authorities and national oil companies in most oil producing countries (OPEC and non-OPEC) and in many consuming countries.

CHARLES L. CAMPBELL
President

Charles Campbell holds a BS degree in chemical engineering from Grove City College.

After working as a project engineer for Exxon Corporation and the Air Products & Chemicals Corporation, he joined Gulf Oil Corporation as a senior refinery economist. Among his Gulf assignments, he served as General Manager of a large refinery in Great Britain, country manager in Taiwan and CEO of a joint-venture refinery there, Senior Vice President in charge of international crude oil supply and logistics, and Senior Vice President of Gulf's U.S. Refining and Marketing Company.

Following his Gulf career, Campbell was President and CEO of a large independent distributor and marketer of petroleum products in the Pacific Northwest, and later a Senior Energy Specialist with Merrill Lynch. In 1988, he was one of the founding partners of Applied Trading Systems, Inc.

During his more than 35 years of experience in the energy industry, Campbell has managed the design, start up, and operations of refining, and chemical cryogenic units in the U.S., Europe, Asia, South America and the Middle East; streamlined Gulf's worldwide crude oil transportation system resulting in major reduction in the corporate tanker fleet; developed real-time supply, trading, processing models to maximize profitability using petroleum futures, statistical analyses and a variety of refining configuration and logistic patterns.

JAMES H. McDONALD
Vice President

James McDonald holds a BS degree in chemical engineering from Louisiana Tech University and has completed the Advanced Management Program from Harvard University.

He was with the Gulf Oil Corporation for 31 years during which he served both in the U. S. and in several foreign countries, primarily in the area of refinery design, start- up and operations. His last Gulf assignment was as Vice President - Product Supply & Distribution. Subsequently he worked for Pace Consultants for six years, and then spent two years as President and CEO of the Paramount Petroleum Corporation in Los Angeles.

McDonald is a recognized expert in refinery design, operations, supply - including transportation, and product distribution - and in oil industry business analysis, while working for Gulf Oil Corporation.

STEPHEN B. WILLIAMS
Vice President

Stephen B. Williams holds a BS degree in chemistry and an MBA from Arizona State University.

He worked for Gulf Oil Corporation for 17 years, including a number of management positions in feedstock acquisition, trading and international oil sales. After serving in various parts of the United States, and in Tokyo, Williams was Regional Vice President - South Asia (Singapore) when Gulf Oil was acquired by Chevron. Subsequently he worked for GOTCO Limited as Senior Vice President and President of the Southeast Asia subsidiary.

He has 25 years experience in the energy industry covering the worldwide purchase, sale and trading of crude oil, refined products, LPG and base oils; as well as broad experience in international business and trade development (particularly in the Far East and the Middle East region where he resided for 15 years).

HB 362

ALASKA AIR CARRIERS ASSOCIATION

1117 E. 35th, #102 Anchorage, Alaska 99508 (907) 277-0071

FAX COVER SHEET

TO: House Finance Committee
c/o Rep Mark Hanley (465-2418)

FROM: Kim Daniels Ross

SUBJECT: F.O.I. Request / Foreign Trade Zones

DATE: 2/20/96

OUR FAX NUMBER IS (907) 277-0072

NUMBER OF PAGES, INCLUDING THIS PAGE: 2

IF THIS TRANSMISSION IS INCOMPLETE, PLEASE CALL (907) 277-0071. THANK YOU.

Message: Update.

* Please distribute to Finance Committee Members;

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ALASKA AIR CARRIERS ASSOCIATION
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February 19, 1996

Mr. Larry E. Myers
Director, Income and Excise Audit Division
State Department of Revenue
P.O. Box 110400
Juneau, AK 99811-0400

via fax: 269-6644

Re: Public Records Request, AS 09.25.100; Foreign Trade Zone
Aviation Fuel Tax Exemption

Dear Mr. Myers,

Thank you for promptly furnishing the Memorandum by David LeBlond, dated October 27, 1995, in response to our letter dated January 30, 1996. The Memorandum has been helpful insofar as it goes. Surely, however, there must be more available in terms of justification for the Department's weighty decision that federal law preempts Alaska taxation of aviation fuel under AS 43.40.010 with respect to imported aviation fuel withdrawn from a Foreign Trade Zone in Anchorage for use in flights that continue from foreign countries to destinations in the Lower 48.

This is a formal request, under AS 09.25.100 - 09.25.220, for all "public records", as they are defined in AS 09.25.220, relating to the Department's analyses of the federal preemption of Alaska tax issues in connection with HB362 and the two tanker loads of Kuwaiti fuel offloaded at the port of Anchorage last year. Our request includes, without limitation, the information requested in our letter of January 30th, and all related documents, correspondence (including correspondence to or from air carriers and the U.S. Customs Service), memoranda and citations to state and federal laws, rules, regulations and cases.

Again, we ask that you respond as quickly as possible. If you have any questions please call.

Sincerely,

Kim Daniels Ross

Kimberly S. Daniels Ross
Executive Director

cc: Rep. Gene Therriault
Rep. Mark Hanley
House Transportation Committee
House Finance Committee
Commissioner Joe Perkins, DOT/PF
Larry E. Myers, DOR
AACA Board of Directors

ALASKA JET FUEL

EXCISE TAX ON FOREIGN FLIGHT SALES

Presentation of Herbert I. Goodman

My name is Herb Goodman. I am the CEO of Applied Trading Systems, Inc. ATS is an oil trading and trade consulting firm in Houston, Texas. I have been asked to provide to the Committee our analysis of the impact of Alaska's 3.2 cents/gal excise tax on the competitive economics of the supply of aviation jet fuel to the Anchorage International Airport from refineries in Alaska versus the import of bonded jet fuel, or jet fuel into the Free Trade Zone, from refineries outside of Alaska.

The creation of the Foreign Trade Zone (FTZ) in October 1995, gave companies operating in the FTZ the right to bring foreign-sourced jet fuel into the FTZ free of all U.S. taxes and to remain tax-free if used on flights to foreign destinations or on foreign-originating flights continuing to onward U.S. destinations if the airplane had the same tail number and the same flight number. We understand that, when Alaskan refined jet fuel is sold to airlines at Anchorage, existing Alaskan law exempts from the 3.2 cents/gal tax fuel sold to flights going to foreign destinations. The tax currently is charged on locally refined fuel which is sold to incoming international flights which are proceeding onward to other U.S. destinations. The legislature is considering the extension of the tax exemption to those domestic legs of international flights.

I. QUESTION TO BE ADDRESSED

I will focus my remarks this afternoon towards providing our answer to the following question:

> Does the FTZ exemption for bonded material give the foreign suppliers of jet fuel a commercial advantage over the Alaskan refiners?

II. SUMMARY OF CONCLUSIONS

Our analysis has led to the following conclusions which will be developed in detail and fleshed out in this report:

1.) Jet fuel is a standard specification petroleum product which is interchangeable from one location to another. Jet fuel prices in different locations are therefore related to each other through differentials reflecting the cost of transporting the product between those locations, with a strong tendency over time for those prices to equal one another. Jet fuel prices in Alaska are set at differentials from spot prices in other market centers, most frequently Los Angeles.

2.) Supply/demand balances and the economics of jet fuel pricing strongly indicate that there are few world refining centers from which jet fuel can be expected to be regularly or reliably supplied to Alaska. Spot or short-term volumes will be available from time to time, and the reality or threat of such imports help to keep prices at Anchorage consistent with price levels elsewhere.

3.) Because of Anchorage's relative remoteness from the most likely possible sources of jet fuel imports, Alaskan refineries have a transportation and delivery advantage over potential competitors for that market.

4.) The Alaskan refineries have access to Alaska North Slope crude oil (ANS), under economic terms which appear to be favorable when compared with relative values and prices of the international crudes which are used by potential foreign importers of jet fuel.

5.) Therefore, the Alaskan refineries' economics for the production of jet fuel and its sale at Anchorage under prevailing pricing realities provide them with refining margins comparable with or better than the margins enjoyed by the importing competitor, even after payment of the 3.2 cent/gal excise tax.

6.) However, the 3.2 cent/gal can not be passed on to the customer, since imported fuel would not bear the tax, and the airlines would be ready to import some volumes to assure that jet fuel price levels at Anchorage continue to be consistent with other areas. Thus the Alaskan refiners obviously would have margins 3.2 cents/gal higher if they did not have to pay the tax.

III. SPECIFIC REFINERIES IN ALASKA WHICH ARE AFFECTED

It is, of course, well known to the members of the Committee, but for the sake of the analysis, I would like to note that, of the six Alaskan refineries, the two on the North Slope are not relevant in this discussion, and that the four which are listed below can supply jet fuel to Anchorage:

Company	Refinery Location	Crude Thruput Barrels/Day
Mapco	North Pole	130,000
Petro Star	North Pole	12,000
Petro Star	Valdez	34,000
Tesoro	Kenai	72,000

Three of these refineries are very simple topping refineries; only Tesoro produces a full slate of refined products. Mapco and Petro Star take selected cuts from the crude and return the remaining material to the pipeline. Exhibit 1 shows jet fuel deliveries to the Anchorage airport from Alaska's refineries. Mapco uses the Alaska Railroad to transport their jet fuel from North Pole to Anchorage. PetroStar delivers 2 to 3 barges a month from Valdez to Anchorage. We do not know at this time whether PetroStar makes railcar deliveries from North Pole; however, based on the relative refinery sizes, Mapco's available volumes would be much larger. Tesoro sends products from Kenai to Anchorage by pipeline.

IV. NON-ALASKA REFINING LOCATIONS WHICH CAN SUPPLY JET FUEL

Exhibit 2 shows the major refining centers outside of Alaska which have the capability of producing jet fuel for delivery products to Anchorage. The following refining centers have historically had, and continue to have, extensive export refinery capacity:

Singapore
Middle East
Caribbean

Other locations which have recently built refining capacity in excess of their domestic requirements are:

South Korea
Thailand

Although the Korean and Thai refineries currently do have excess capacity, their primary function is supply of their domestic markets and, as local demand expands, it will pre-empt products away from the export markets.

Other refining locations which can now or may in the future supply Alaskan markets are:

U.S. West Coast
U.S. Gulf Coast
Hawaii

The primary markets for U.S. refiners are regional and those refiners will not be stable long-term suppliers to the Alaskan market, although at any time a spot cargo or short-term arrangement might seem economic and could possibly be made. However, U.S. energy demand continues to increase, the construction of new U.S. refinery capacity has essentially stopped, and the U.S. is increasingly becoming a destination for imported petroleum products.

Japan is now progressively decontrolling its oil industry and conceptually could ultimately become a foreign source of refined products to Alaska, but the current state of Japan's refining industry and other factors make that an unlikely and distant possibility.

In general, companies in countries which are large consumers of petroleum products will build local markets and relegate foreign markets to a lower priority level and/or will build refineries in the foreign markets which they serve.

Therefore, in this analysis we have assumed that the basic refining centers which could supply Alaska on a term basis are the **Middle East, Singapore and the Caribbean.** For comparative transportation purposes we have also looked at a U.S. West Coast location and a Korean location. Economics for Thailand exports would be essentially the same as those for Singapore, although the supply would not be as stable.

V. OTHER MARKETS WHICH COMPETE WITH ALASKA FOR SUPPLIES

Because of the location of Alaska relative to other markets, there will be a continuous competition from other markets for jet fuel supplies.

1) The U.S. is not installing new refining capacity. The **U.S. East Coast** is already net short of capacity and products being imported into this region (which has the highest population concentration in the U.S.) are coming from the Caribbean, South America, Europe and the Middle East.

2) In South Asia, **India** is experiencing an accelerating demand for petroleum products which is outstripping refining capacity. Planned new refinery construction has been constantly delayed by a host of problems, generally related to an evolution toward private ownership from a policy of total government ownership of refining capacity. India uses large quantities of kerosene-type materials which are similar to jet fuel.

3) **China** also is experiencing enormous industrial growth with extensive needs for distillates such as kerosene and gasoil. China has invited foreign refiners to participate in the country's modernization but foreign companies have not accepted the Chinese rules for entry, so that China also needs an increasing volume of imports of jet-fuel-range materials.

Exhibit 3 shows that all of these competing markets are closer geographically than Alaska is to the excess refining capacity which is currently available, and thus are inevitably more probable market targets than is Alaska. In any case, Asia is short of kerosene, and airlines seeking supplies for Alaska would be in no position to get preferential treatment for term supplies -- i.e. for some time to come, the airline will be confronted with a seller's market combined with a freight disadvantage.

VI. JET FUEL FUNGIBILITY

In order to develop the overall economics for this analysis, it is first important to understand the underlying dynamics of the product supply. Jet fuel and marine bunker fuels are as far apart as possible in terms of quality; however, they have a common thread - fungibility and price competition.

A fungible material is one that is universally interchangeable. Some petroleum products -- an example is gasoline -- can be quite different in different locations, with particular specifications imposed by governments or others. California requires very specific gasoline specifications different than other states, and Federal Reformulated Gasoline standards are not applicable everywhere. There is essentially no fungibility in these products and they cannot easily or economically be moved from one region to another. Several Asian and European countries have gasoline and diesel specifications which are more restrictive than those of other countries in the same region, so that intra-regional supply balancing may be inhibited.

Jet fuel quality is the same worldwide because international airlines buy jet fuel for the same planes in all countries. Unlike other petroleum products, jet fuel and marine bunker fuels are used in equipment which the consumers -- ship owners and airlines -- move from one location to another, using the fuel between locations. Those customers are continually focused on cost control, and will always seek ways to purchase fuel at the lowest-cost locations. An

Alaska example known to the Committee, involved an Alaskan marine fuels merchant with a terminal at Seward where that company blended bunker fuels for sale to cruise lines and other vessels. When the state imposed an excise tax on bunker fuel, the ships began to round-trip bunker at other ports, so that the Alaskan supplier lost the business. When the tax was eventually removed, the shipping companies resumed their bunkering in the Alaskan port.

To the extent possible, airlines -- and oil companies serving them -- behave in a similar fashion, and that behavior contributes to a tendency towards price parity in various selling locations, a tendency which is not is not nearly so evident in the behavior of other petroleum products.

VII. MAJOR INTERNATIONAL AIRLINES AND JET FUEL PURCHASES

The major airlines have very sophisticated supply and purchasing operations and, with their purchasing power, they may:

1) Lease tankage at major airports and buy large cargoes of jet fuel in one region of the world for delivery by ocean going tankers to the major airports and/or

2) Optimize intra-regional jet fuel purchases by refueling their planes at airports with the lowest priced material.

At any point in time jet fuel prices worldwide may be randomly higher or lower in various consuming areas of the world. These disparities are caused by short term supply imbalances. However, in general, over long periods of time jet fuel is at the same price level in all major industrial areas where there is free trade, where there is significant local refining capacity, and where the refineries are located relatively near the major international airports.

The prices at which jet fuel is sold are closely tied to the fluctuating international spot markets. Although refiners and airlines generally enter into term contracts, typically for a one-year period, the price clauses of those contracts generally call for regular periodic changes in the price on a spot-market related formula. In the U.S., prices are usually set for a week at a time -- Monday through Tuesday. The companies get the Friday report of *Platts Price Service* on the following Monday, calculate the previous week's *Platts* average, make a market-related (and competitor-related) adjustment, and then announce the new price for the week, effective that day.

In Europe, much the same thing is done -- prices are market related -- but typically are set a month at a time.

Cargo lots are also sold on a market-related basis. Here, market-related prices typically are the average of three days *Platts* reports -- day of bill of lading, day before and day after.

In the Caribbean, a seller would offer jet fuel at *Platts* "waterborne mean" plus a differential of typically 1.0-1.5 cents/gal.

At Anchorage, jet fuel is generally priced under formulas involving some plus or minus differential from published spot prices at the U.S. West Coast or U.S. Gulf Coast markets. A few pricing formulas involve differentials from the spot prices of Alaska North Slope (ANS) or West Texas Intermediate (WTI) crudes. Exhibit 4 shows the U.S. West Coast prices of jet fuel for the period 1992 through 1995. The U.S. West Coast price, while more or less random on a day-to-day basis, has always adjusted itself to relative parity with price levels in other parts of the world, as a result of the international movements between regions by trading companies and airlines.

For West Coast supply, airlines like to purchase some supplies somewhere else and transport the fuel to the West Coast in order to keep pressure on the local sellers and keep the market from getting too tight, and they like to make term deals to average out the market ups and downs. However, in the term deal, the purchase price will still be on a formula basis -- tied to U.S. Gulf Coast *Platts* or some other fluctuating benchmark.

For sales from the U.S. Gulf Coast for delivery to the U.S. West Coast, where there is a 14 day voyage time, the risk of changes in the inter-regional price differential is usually mediated by pricing the material (on a 3 day average basis) seven days after lifting, or about half-way.

Exhibit 5 shows the latest four years of history of the spread between Rotterdam and New York jet fuel prices. The Transatlantic airline routes are the most heavily travelled in the world and, as can be seen, the average prices were essentially the same on both sides of the Atlantic for the four year period. Any short term supply disparities were quickly corrected by cross-Atlantic deliveries of tankers of jet fuel and changes in local airport purchasing strategies by the airlines.

Exhibit 6 shows the spread between the U.S. East Coast and U.S. West Coast prices. Here again the difference between the four-year averages is small when compared to the overall price level of the product.

Exhibit 7 shows that the average prices on the U.S. West Coast and Singapore are essentially the same over the four year period. These two locations do not compete directly on airline resupply on a major basis and there is much less flexibility on refuelling because of the flight distances involved. Even so, pricing

equilibrium is indirectly forced around the Pacific rim by a combination of marine shipments in the region and the short-haul refueling choices within the region.

Around the world the following average jet fuel pricing pattern occurred over the four year period:

AVERAGE WORLDWIDE KEROSENE PRICES 1992 THROUGH 1996
CENTS/GALLON

Location	Absolute Price	Difference
Rotterdam	54.12	
New York Harbor	54.86	
Rotterdam/New York		0.74
New York Harbor	54.86	
U.S. West Coast	56.09	
New York/U.S. West Coast		1.23
U.S. West Coast	56.09	
Singapore	56.57	
U.S. West Coast/Singapore		0.48

Therefore, it can be seen that, on an overall average -- long-term -- basis, there is no economic rationale for moving kerosene between these locations. This movement to parities, results from the fact that -- as soon as economically significant locational price differences develop -- volumes of the product move from the low price location to the high price location. Those spot and short-term movements, and the constant threat of such product movements, bring the different markets back to parity.

VIII. ECONOMICS OF DELIVERY TO ANCHORAGE - OCTOBER 1995

Jet fuel prices in competitive locations tend to equalize over time. If there were no refineries in Alaska, the price of jet fuel at Anchorage would tend to be the price at the closest export location plus freight. The three primary locations in the world which have refining capacity in excess of their local needs are Singapore, the Middle East and the Caribbean.

The following table shows October 1995 freight rates for transportation of jet fuel to Alaska from those locations in 30,000 DWT vessels, as well as the

equivalent transportation costs for moving jet fuel to Anchorage for the Alaskan refiners. It can be seen that the transportation costs from the three principle foreign refining locations are essentially break-even with the highest cost Alaskan refiner.

KEROSENE DELIVERY COST TO ANCHORAGE (CENTS/GAL)

PURCHASE LOCATION	OCTOBER 1995
Caribbean	7.3
Middle East	10.2
Singapore	6.2
Korea	4.1
U.S. West Coast	2.2
North Pole	7.5*
Valdez	4.0
Kenai	2.0

*Publicly quoted large volume rate; private contract rates are lower.

It should be noted that these transportation costs for foreign material assume that the existing storage facilities in Anchorage would be available at all times to receive their maximum capacity, so that the incoming tankers could promptly discharge their full cargoes into the shore tankage. That situation, of course, would rarely - if ever - occur.

If those deliveries were made in the usual, routine way -- in which the tankers discharge their cargoes into tanks which were already partially loaded -- then the parcel sizes carried by the tanker would have to be in the range of 15,000 to 25,000 tons, or else the vessels would have to incur significant demurrage, meaning considerably higher costs for the imported material.

The port limitations at Anchorage in terms of water depth and available tankage are similar to the situation in all U.S. ports, with the exception of LOOP offshore Louisiana. LOOP is the only American port capable of discharging large cargoes of petroleum. At Anchorage, there is a maximum water depth of 39 feet and a maximum ullage of 250,000 barrels (32,000 tons) available for kerosene imports. Being able to utilize that maximum would require that all conditions were perfect with regard to weather, local consumption estimates and vessel steaming time. Under typical conditions, the available tankage for discharge will be 150, 000 to 200,000 barrels, which equate to 19,000 to 25,000 deadweight ton parcels, which are very small, and the transportation of which is quite costly.

The complexity and cost of transporting jet fuel to Alaska played a major role in the Kuwait Petroleum Corporation (KPC) decision to abandon their intention to import bonded material into the Anchorage FTZ.

KPC produces significant volumes of jet fuel in their Middle East refineries and had been studying the potential markets in the Pacific Basin, with the idea of bringing the material into the area from Kuwait in 80,000 to 100,000 DWT tankers for multiple port discharge, and they expected the use of those large vessels to provide them with substantially reduced transportation costs.

KPC had been using 80,000 DWT vessels with two or three port discharges to Hawaii and the U.S. West Coast but were limited to loading only 50,000 tons of cargo because of receiving port limitations. The plan was to include Anchorage as one of the ports.

After experiencing two deliveries of jet fuel to Anchorage in October and December 1996, KPC announced that they were abandoning that strategy. The two deliveries were made in light-loaded 39,000 DWT tankers, each with about 32,000 tons of cargo, which raised the unit cost for the material transported.

In summary, these data show that -- if transportation costs were the only consideration -- even the Alaskan refinery with the highest transportation costs would be in an economic position equal to or better than that of the importer of foreign jet fuel.

IX. ECONOMICS OF DELIVERY TO ANCHORAGE - JANUARY 1996

Three months later, by January 1996, the freight disadvantage for imported jet fuel had worsened significantly as shown by the following table:

KEROSENE DELIVERY COST TO ANCHORAGE (CENTS/GAL)

PURCHASE LOCATION	JANUARY 1996
Caribbean	11.2
Middle East	11.3
Singapore	7.3
Korea	4.9
U.S. West Coast	2.2

North Pole	7.5*
Valdez	4.0
Kenai	2.0

*Publicly quoted large volume rate; private contract rates are lower.

That increase in clean tanker costs reflects a major increase in the demand for middle distillates (including kerosene and heating oil) in north Asia, especially in Japan, which has resulted in major price increases there, which has in turn attracted imports from most other areas. Those developments are reflected in Exhibits 8 and 9. Exhibit 8 shows the last four years of price data for Japan, Singapore and the U.S. West Coast over the last four years. It will be seen that the relationship between those prices was quite stable until last October, when it changed rather markedly. Exhibit 9 shows those relative price data for the last 12 months.

The supply shortages and price escalation in Japan seem to be receding. However the experience of this winter is somewhat enlightening, and supports an opinion that the refiners in Alaska are not in danger of serious economic damage from the importation of bonded jet fuel into the FTZ, with or without the 3.2 cents/gal excise tax. The distillate price runup in Japan has actually been part of a larger and complex set of international supply/demand factors, including the cold winter in the U.S. Northeast, which unusually increased the demand for heating oil, so that the increased call on the aging international tanker fleet quickly ran up freight rates both in Asia and the Caribbean. Thus, refined product price increases have been accompanied by increased tanker charter rates, dealing a magnified blow to the economic feasibility of profitably exporting jet fuel to Alaska, in competition with the local refineries in Alaska.

The decision of Kuwait Petroleum Corporation (KPC) to withdraw from the Alaska FTZ jet fuel strategy -- and from its broader strategy of bringing petroleum products from Kuwait into the eastern Pacific area -- which it had pursued over the last several years, was based on a number of factors involving that company's economic situation. However, one of those factors was certainly that international supply/demand matrix which was revealed in those developments during this 1995-1996 winter.

X. ANS VERSUS SAUDI LIGHT REFINERY RELATIVE VALUE ANALYSIS

Thus far, this analysis has assumed the point-of-view of a trader or marketer considering whether to enter the jet fuel market in the Anchorage FTZ, with either a locally refined or a foreign sourced material. It is irrefutable that, in providing fuel for onward domestic legs of foreign originating flights, competing with foreign sourced material, the Alaskan refiner now has a 3.2 cent/gal lower margin than if there were no tax. The price to the airline-customer is related to

an international pricing benchmark, and thus does not fluctuate to make allowance for the tax.

Although it is clear that the Alaskan refiner has a 3.2 cent/gal lower margin after paying the excise tax than he would have witnout the tax, it is still not obvious whether the refiner's margin after paying the tax is an acceptable one, nor whether the Alaskan refiner's margin is lower, higher or the same as the margin enjoyed by the foreign competitor who has imported bonded fuel into the FTZ and has not been burdened with the particular cost of that 3.2 cent/gal tax. To understand that piece of the economics of the competing foreign and Alaskan refiners, we must look at their transportation costs, which we have already done, and we must also look at the price each of them pays for crude oil. The Alaskan refiner buys ANS and the foreign refiner buys some other internationally traded crude. We shall assume that that foreign crude is Arab Light. Exhibit 12 provides a relative value analysis of ANS and Arab Light at a U.S. West Coast refinery with average upgrading capacity.

ANS has become an international benchmark crude, which means that its value to refiners is routinely and continuously examined in comparison with the values of other crude oils. BP does not find it economic to use ANS in their own refineries. Primarily for that reason, most of BP's ANS is sold to or exchanged with U.S. West Coast refiners. In the past, much of that ANS went to the U.S. Gulf, but decreasing U.S. production and increasing consumption have combined to keep most of it on the West Coast. Chevron and Texaco both have significant refining operations on the West Coast, and, through their historic Saudi Aramco connections, both have access to large volumes of Saudi crudes.

In calculating and optimizing their internal supply plans, Chevron and Texaco can run Saudi Arab Light in their West Coast refineries, or they can buy ANS and run their avails of Arab Light in their refineries at other locations, or sell that Arab Light to third parties. In making those judgements, those companies will examine the values to their refineries of ANS and the other crudes, and come to a conclusion as to their relative values and dollar worth. They will begin to buy quantities of ANS at the price at which it equates with the international mix of other crudes available to them. In such a way, ANS has become an international crude oil with an internationally accepted value. Exhibit 10 shows the possible supply routes for ANS or Arab Light to the U.S. West Coast.

Over any significant period of time, the prices of ANS and Arab Light should be about the same, when corrected for quality and locational differences. Exhibit 11 shows that, for the four year period 1992-1995, the spot price of Arab Light FOB Ras Tanura (as quoted in Singapore) was 15 cents per barrel higher than the spot price of ANS delivered to the U.S. West Coast. However, a detailed relative value analysis (Exhibit 12) shows that, at a U.S. West Coast refinery gate, during those four years, ANS was worth 42 cents per barrel less than

Arab Light. The ANS prices provided a refinery margin of $2.44/bbl. If the refiner paid $15.29 for a barrel of Arab Light, he would earn that same $2.44/bbl margin, so $15.29/bbl for a barrel of Arab Light, FOB Ras Tanura, was the point of indifference to ANS at $16.26/bbl delivered to the West Coast during that period. However, the average FOB price of Arab Light for the period was $16.41/bbl. this means that the refiners who purchased ANS on the spot market during that period had an advantage of $1.12/bbl over the refiners who purchased Arab Light.

XI. REFINING ECONOMICS 1992 THROUGH 1995

Refining economics have been added to the assessment of relative transportation costs from foreign export refineries and Alaskan refineries. Term crude contracts like term product sales arrangements are linked closely to spot prices. Therefore we have used the 1992 through 1995 period published prices for spot Arab Light at Ras Tanura and delivered to the U.S. West Coast as a starting point in the calculation. As the analysis shows, the ANS buyer on the West Coast enjoys a $1.12 per barrel cost-of-crude advantage over the Saudi crude purchaser. This advantage works its way back to the Alaskan refiner. The following tables show the delivered costs of ANS to the North Pole refiner, and the delivered cost of Arab Light to Singapore and to a Caribbean refinery.

A. ANS Crude Cost at North Pole

Average Spot Price Delivered to U.S. West Coast	$16.26
Freight Valdez to U.S.West Coast	(1.38)
TAPS Pipeline Fee from Pump Station #1	(3.90)
TAPS Pipeline Fee t0 North Pole	2.36
Average Cost of ANS to North Pole Refineries	$13.34

B. Saudi Light Crude Price In Singapore

Average Spot Price in The Arabian Gulf	$ 16.41
Freight to Singapore	0.35
Average Price of Arab Delivered to Singapore	$ 16.76

C. Saudi Light Crude Price In Caribbean

Average Spot Price in the Arabian Gulf	$ 16.41
Freight to the Caribbean	0.92
Average Price of Arab Light Delivered to the Caribbean	$ 17.33

Exhibit 13 shows the detailed comparison of the refining economics for the three locations. For the Alaskan economics we have used data which was recently supplied to the State by Mapco. For the other two locations we

developed economics which are reflective of and consistent with the Mapco data.

The results are summarized below:

Location	**North Pole**	**Singapore**	**Caribbean**
Crude	ANS	Arab Light	Arab Light
Retained Clean Products	30%	60%	85%
Margin With October 1995 Freight	$1.80	$1.60	$2.34
Margin With January 1996 Freight	$1.80	$-0.54	$0.70

Topping operations have been used at Singapore and the Caribbean to be comparable with the North Pole and Valdez operations. The Alaskan margins for the Valdez refinery and that portion of the virgin jet fuel produced from the crude topping unit at Kenai would be considerably better than the North Pole economics simply because the transportation costs to Anchorage from these other locations are considerably lower that the railcar deliveries from North Pole.

The analyses include the excise tax for the North Pole refiner. The analyses show no competitive disadvantage for the Alaskan refiner. The first factor to consider is transportation. For the analyses it was assumed that a fully ladened 30,000 DWT tanker could be used for imports, which is a very optimistic assumption. If that were not possible, the foreign refiners' margins would be lower. Because of tank storage limitations, most actual deliveries would be in 15,000 to 25,000 DWT tankers, or else a 30,000 DWT vessel would be obliged to incur demurrage costs while waiting for enough ullage to discharge its full cargo. The Caribbean margin would decrease at least to a break-even situation using the October 1995 jet fuel freight assessment, which freight rates are representative of a stable market.

During the November 1995 through February 1996 period when there were significant kerosene shortages in Japan, the cost of transportation would have put importers to Alaska at a considerable disadvantage to Alaskan refiners on refining margins related to the Alaskan market. When the opportunity cost of Alaskan deliveries versus higher priced Japanese markets is considered, the excise tax becomes insignificant in the calculations, since no foreign refiner would have provided material to the significantly lower priced Alaska market.

The North Pole refiner removes the higher quality products from the crude, returns essentially residual fuel to the pipeline, and pays a quality bank fee. For a relative comparison a deemed quality bank factor was included in the calculations of the foreign refineries' economics, in order to account for the

losses which the foreign refiner must accept on the sales of his low-end products in order to have access to the clean products. The calculation applies all of the residual fuel losses suffered by the foreign refiner to the sales of the clean products in the same manner as does the Alaskan quality bank calculations.*

Mapco has suggested that the refining costs should be applied only to the clean products which they retain. This same principle has been applied to the foreign refiners' economics.

However, the yield of clean products is not considerably greater for Arab Light at Singapore or in the Caribbean than it is for ANS at North Pole. The overall refining costs at all three locations would be about the same, with about $0.25 per barrel for chemicals and miscellaneous supplies. On a crude oil basis, a fuel use of 2% of the crude can be expected. When these factors are applied to the clean products retained, they become significantly different at each location.

In the Caribbean it was assumed that full range residual fuel is not produced, but that the heavy gasoil cut has been segregated, since this material is a valuable intermediate feedstock to Gulf Coast refiners' FCC units. By including this unfinished material in the clean products, we have reduced the per-barrel refining costs for clean products without adding the mainland FCC refining costs. The result of that is to impute to the Caribbean refinery a lower refining cost than is actually incurred.

The above calculations show the situation in the most favorable set of conditions for the foreign refiner. Using a quality bank calculation, which spreads the cost over all products rather than concentrated on kerosene as suggested by Mapco and assuming that no FCC feedstock is produced in the Caribbean refinery, gives the following economic results:

Location	**North Pole**	**Singapore**	**Caribbean**
Crude	ANS	Arab Light	Arab Light
Retained Clean Products	30%	60%	60%
Margin With October 1995 Freight	$3.71	$1.60	$1.60
Margin With January 1996 Freight	$3.71	$-0.54	$-0.04

Details of these calculations are shown in Exhibit 14.

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* Quality bank numbers used here are those provided by Mapco for North Pole ($3.23/barrel). PetroStar did not provide a set of numbers. We understand that the Department of Revenue believes the correct quality bank penalty is $1.33/barrel for North Pole.

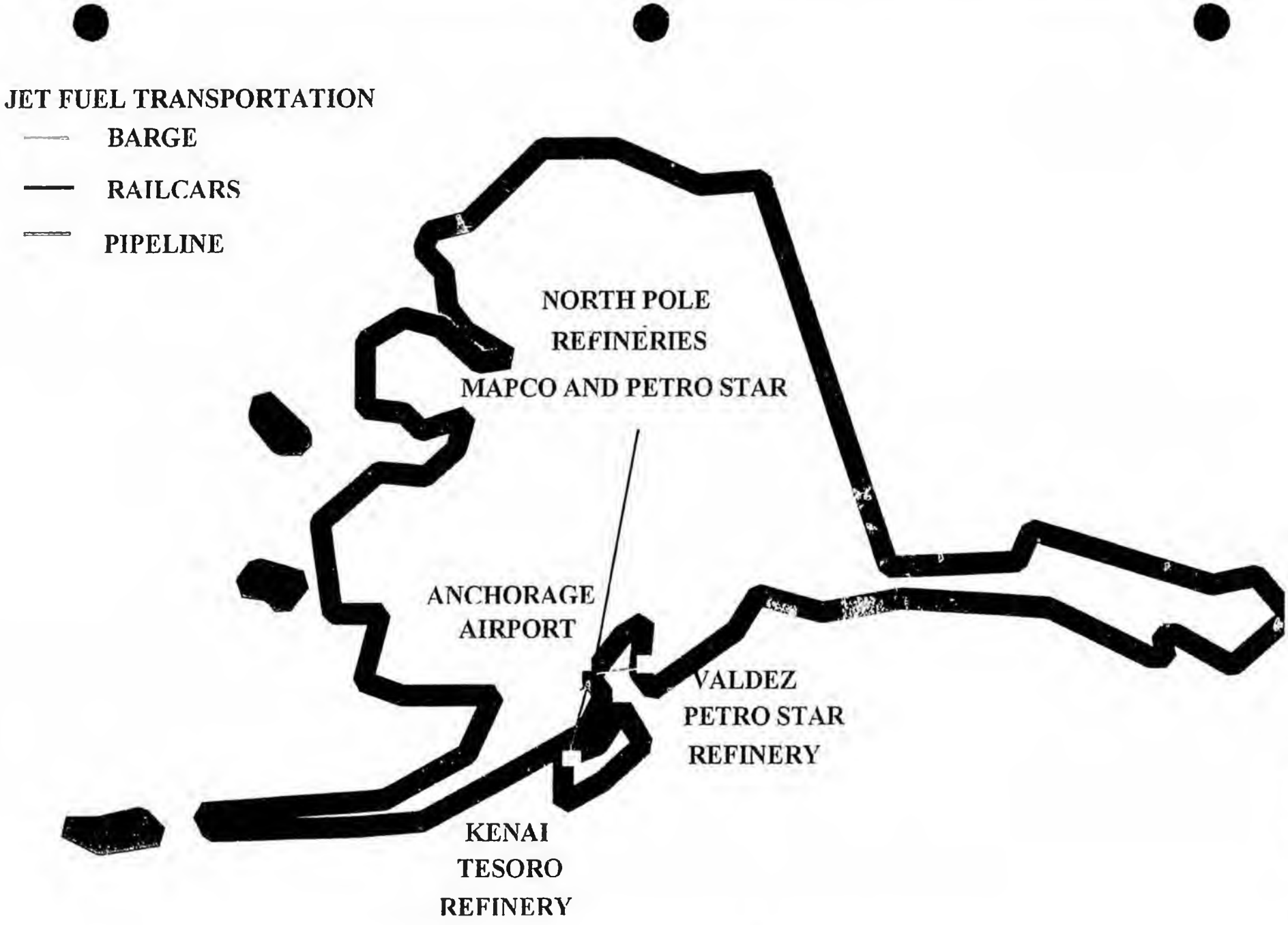


EXHIBIT 1

JET FUEL DELIVERIES TO ANCHORAGE FROM LOCAL REFINERIES

JET FUEL SUPPLY TO ANCHORAGE

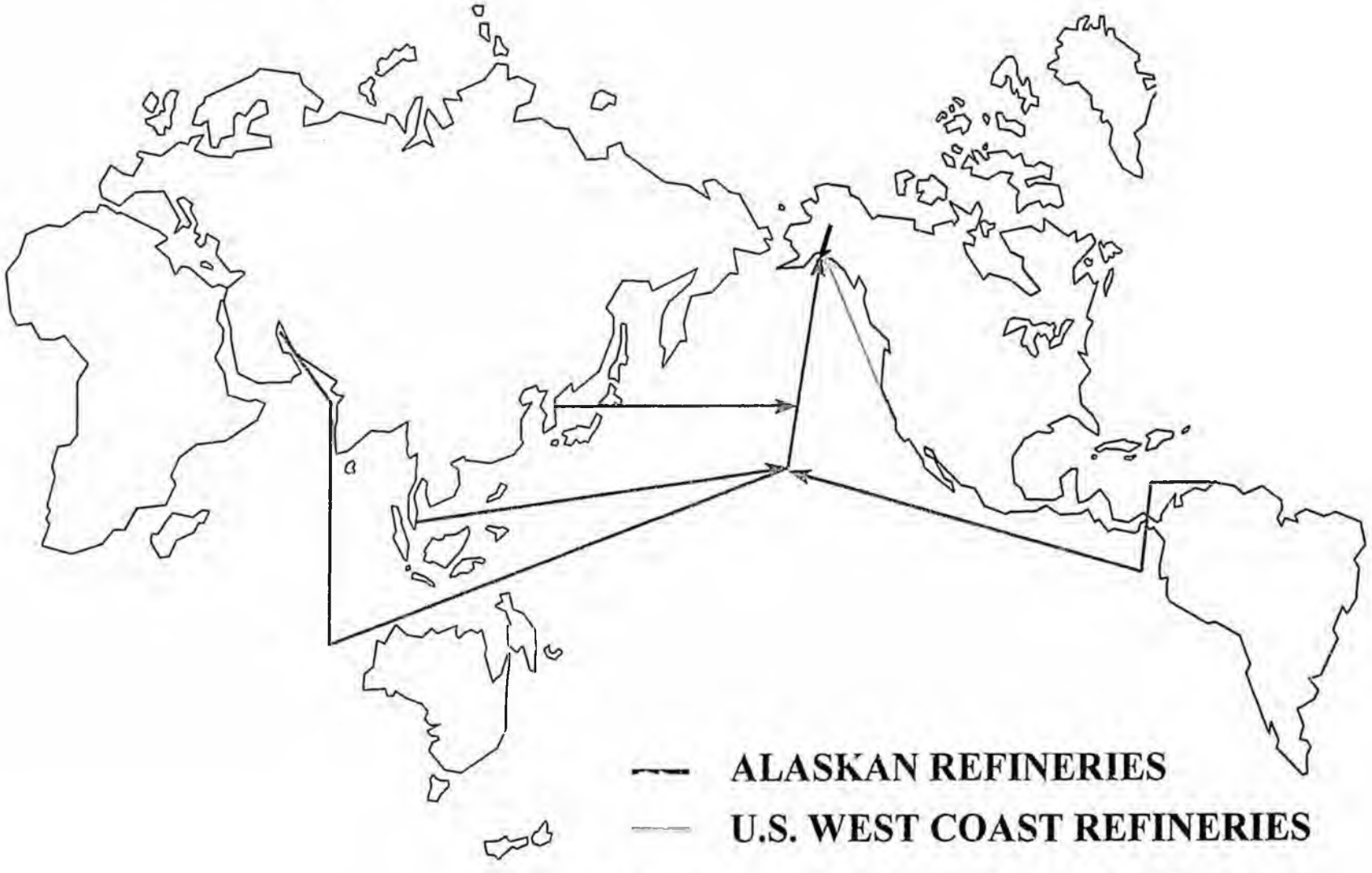
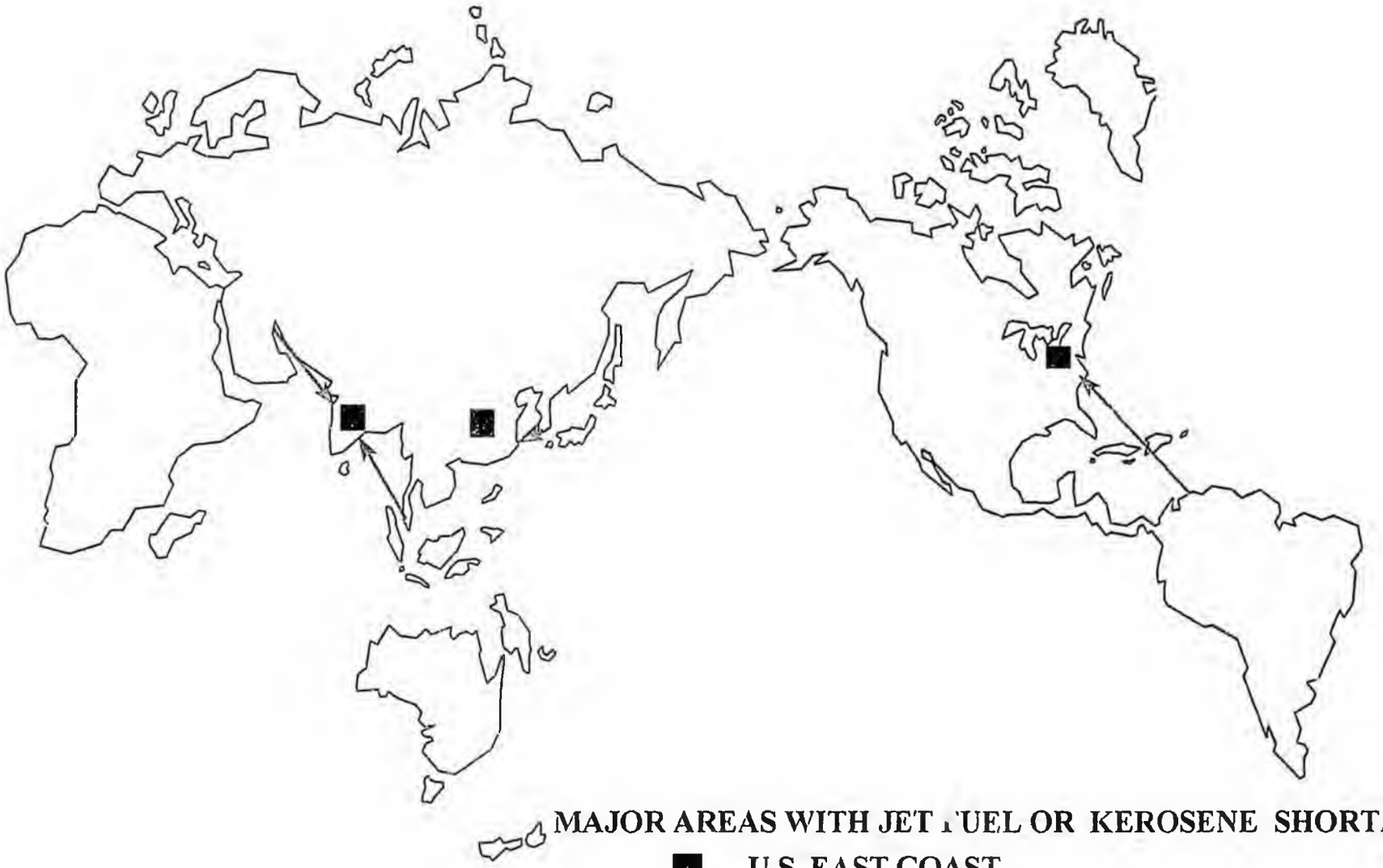


EXHIBIT 2

ALTERNATIVE MARKETS FOR JET FUEL

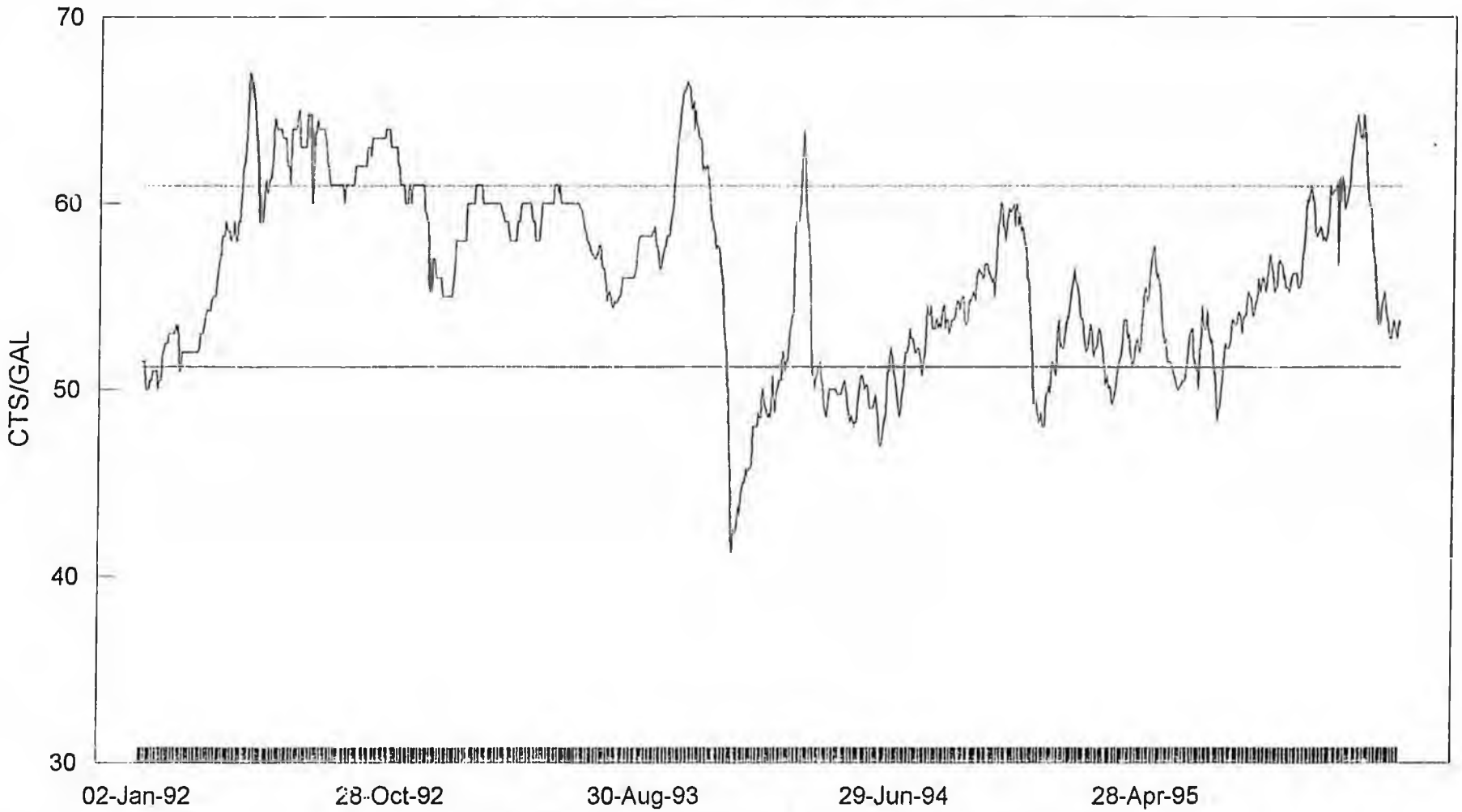


MAJOR AREAS WITH JET FUEL OR KEROSENE SHORTAGE

- U.S. EAST COAST
- CHINA
- INDIA

EXHIBIT 3

KERO WTR WEST COAST



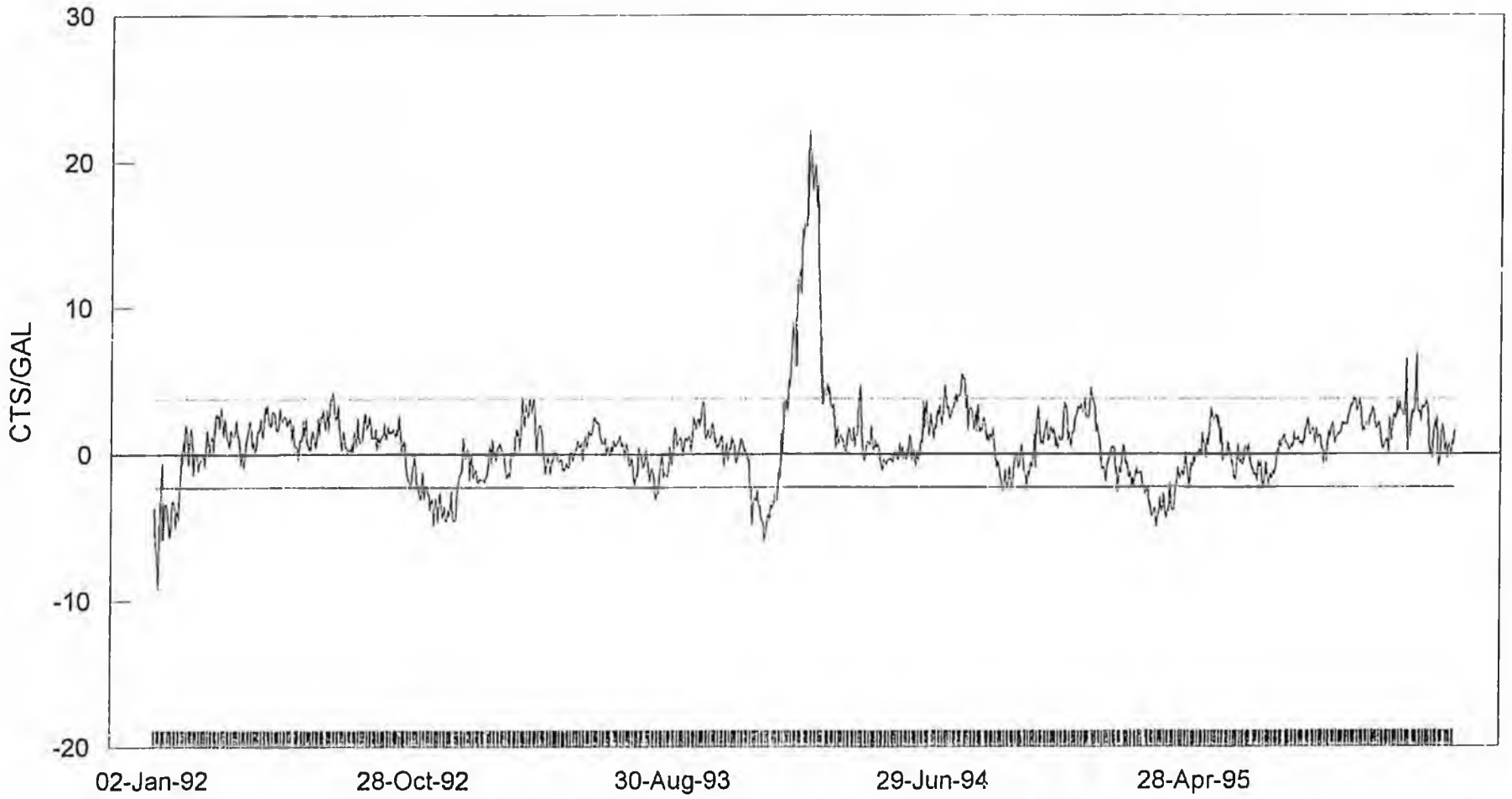
— PRICE AVG +1 SD — -1 SD

AVG 56.08 STD DEV 4.86
LAST DAY 23-FEB-96

EXHIBIT 4

KERO BARGE NYH OVER KERO BARGE ROTTERDAM

PRICE SPREAD



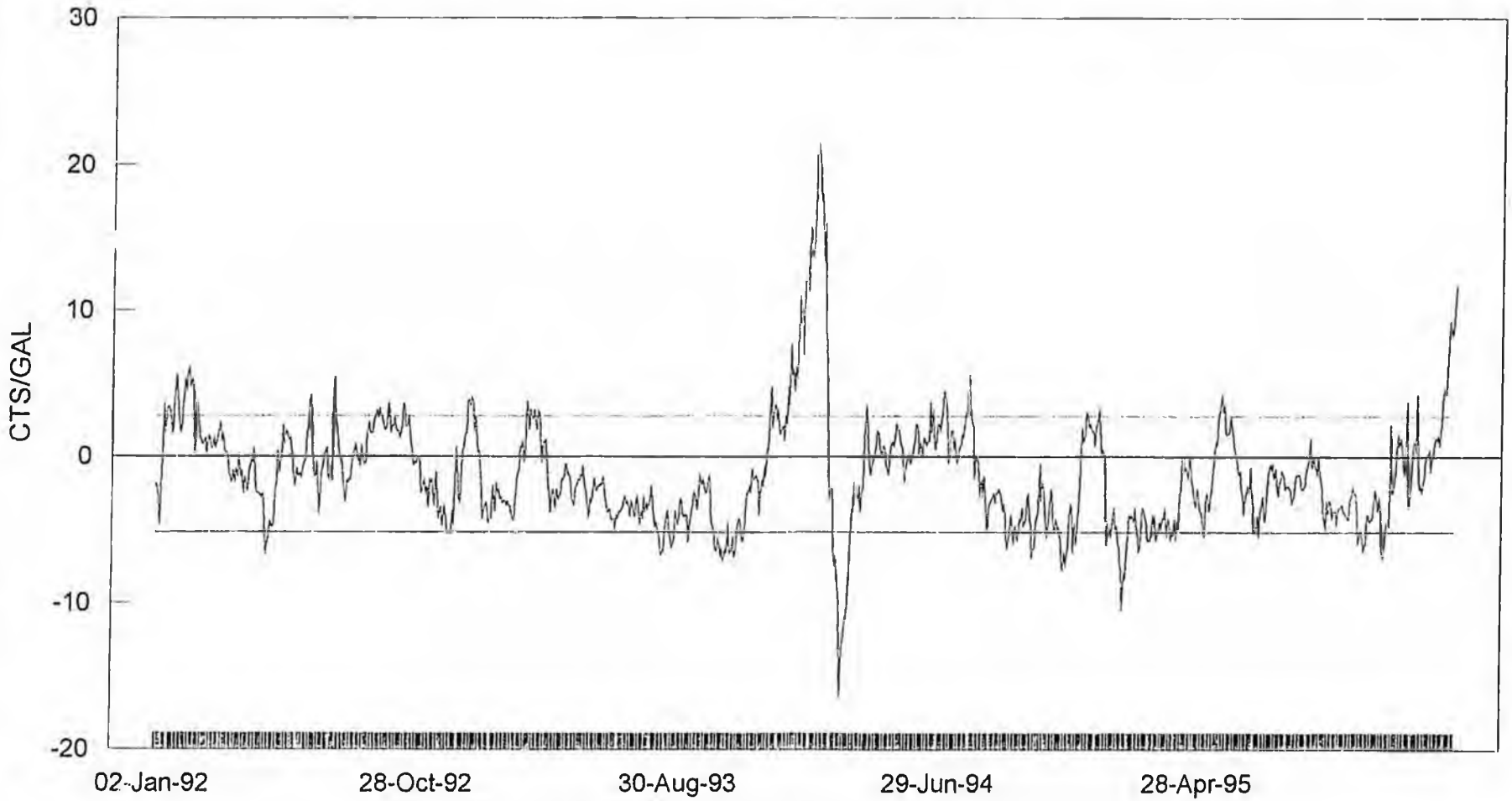
— PRICE AVG - - +1 SD — -1 SD

AVG 0.74 STD DEV 3.01
LAST DAY 23-FEB-96

EXHIBIT 5

KERO BARGE NYH OVER KERO WTR WEST COAST

PRICE SPREAD



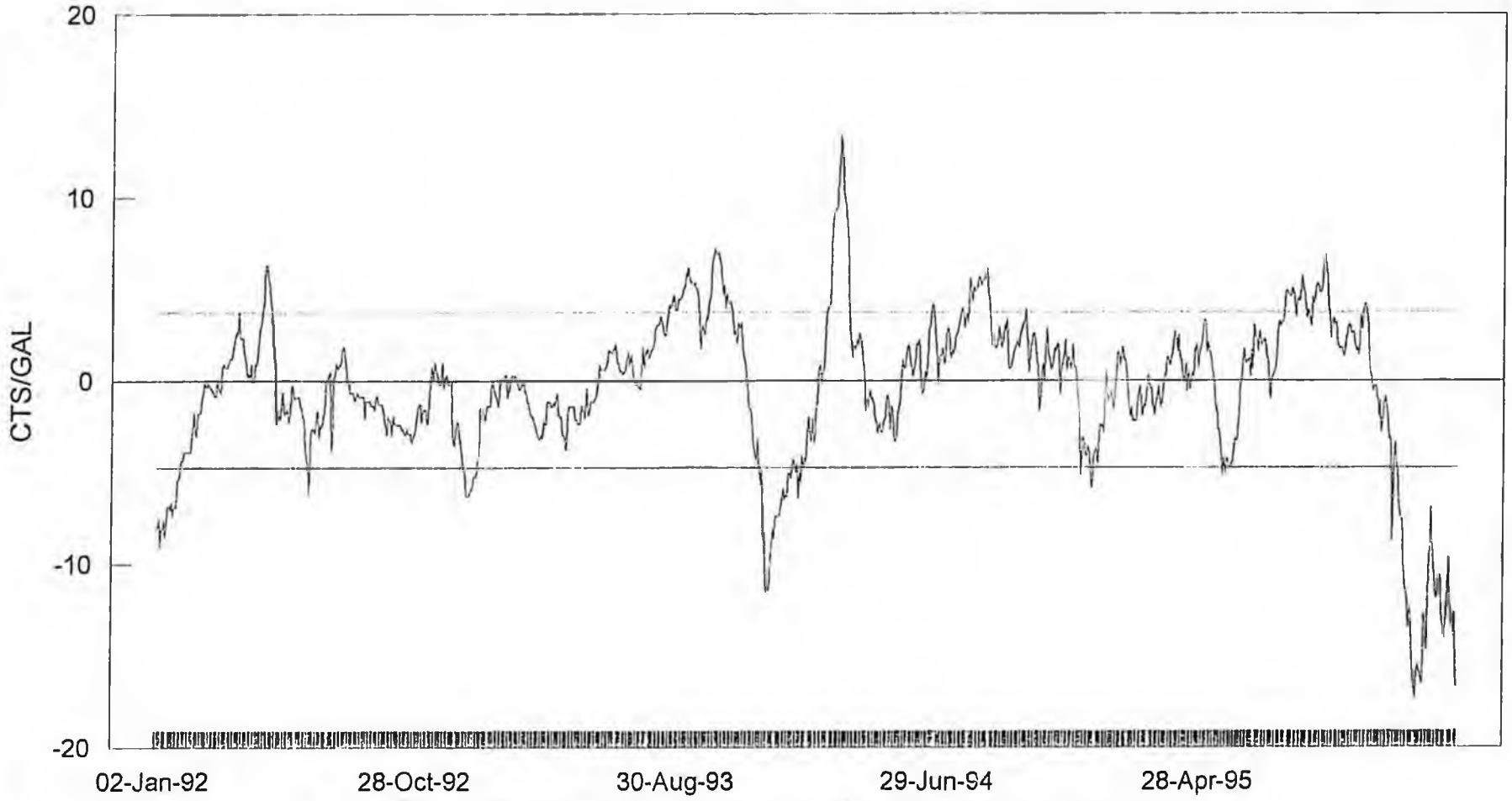
— PRICE AVG +1 SD -1 SD

AVG -1.19 STD DEV 3.98
LAST DAY 23-FEB-96

EXHIBIT 6

KERO WTR WEST COAST OVER KERO FOB SINGAPORE

PRICE SPREAD

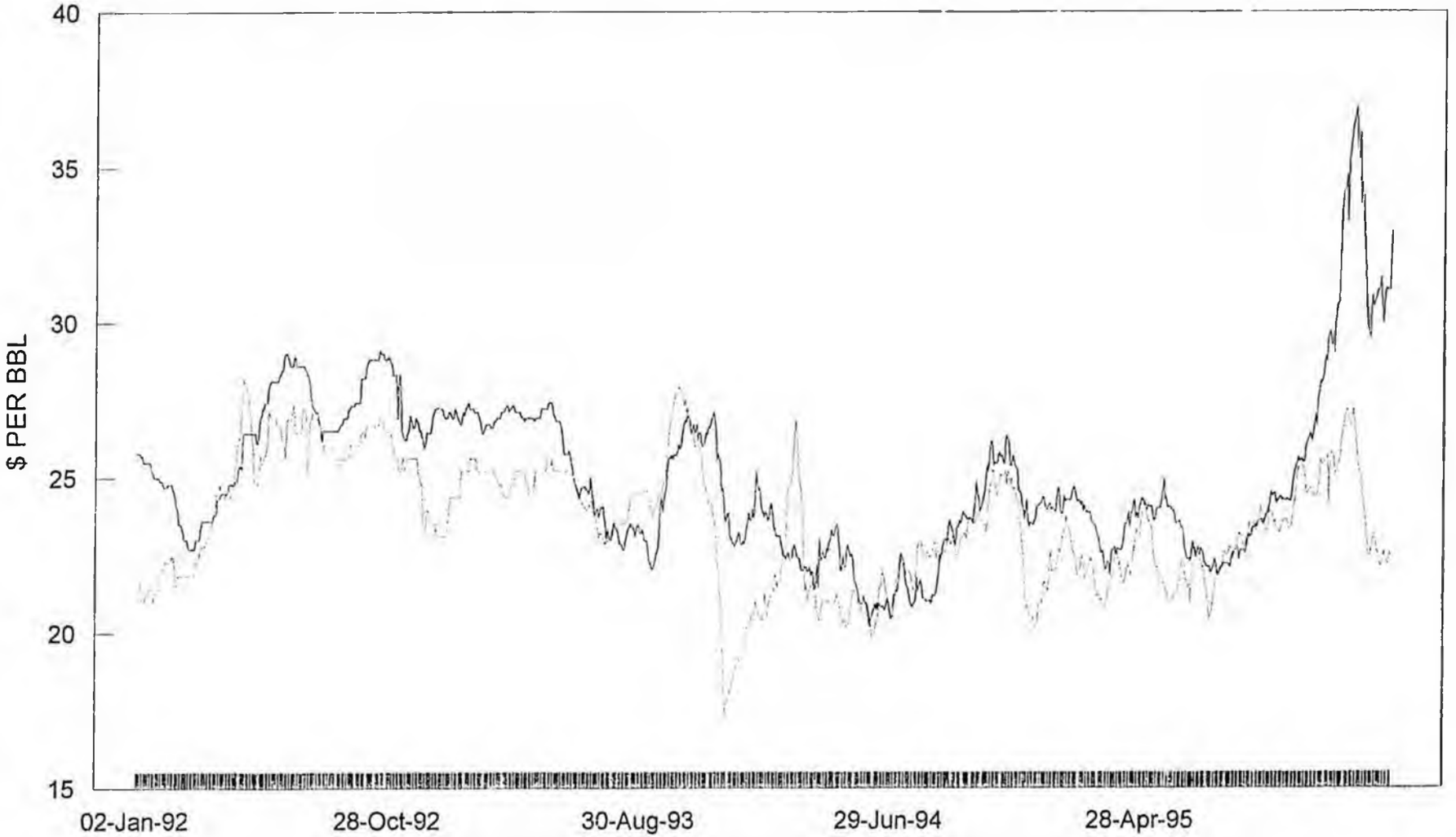


— PRICE AVG — +1 SD — -1 SD

AVG -0.53 STD DEV 4.24
LAST DAY 23-FEB-96

EXHIBIT 7

Long Term Multiple Product Price

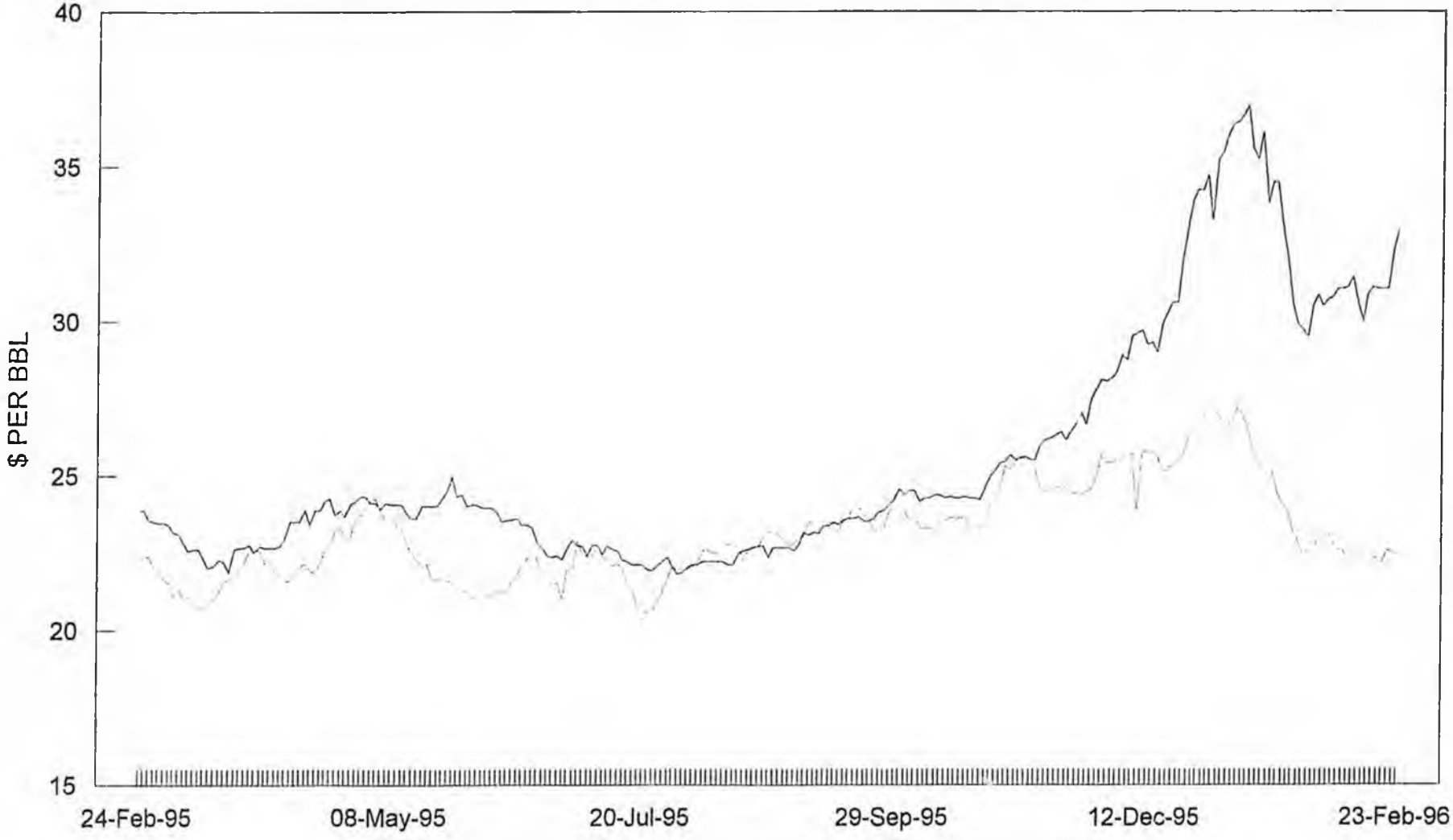


— CARGO C&F KERO JAPAN FOB KERO SINGAPORE WTR KERO WEST COAST

LAST DAY 23-FEB-96

EXHIBIT 8

MULTIPLE PRODUCT PRICE GRAPH

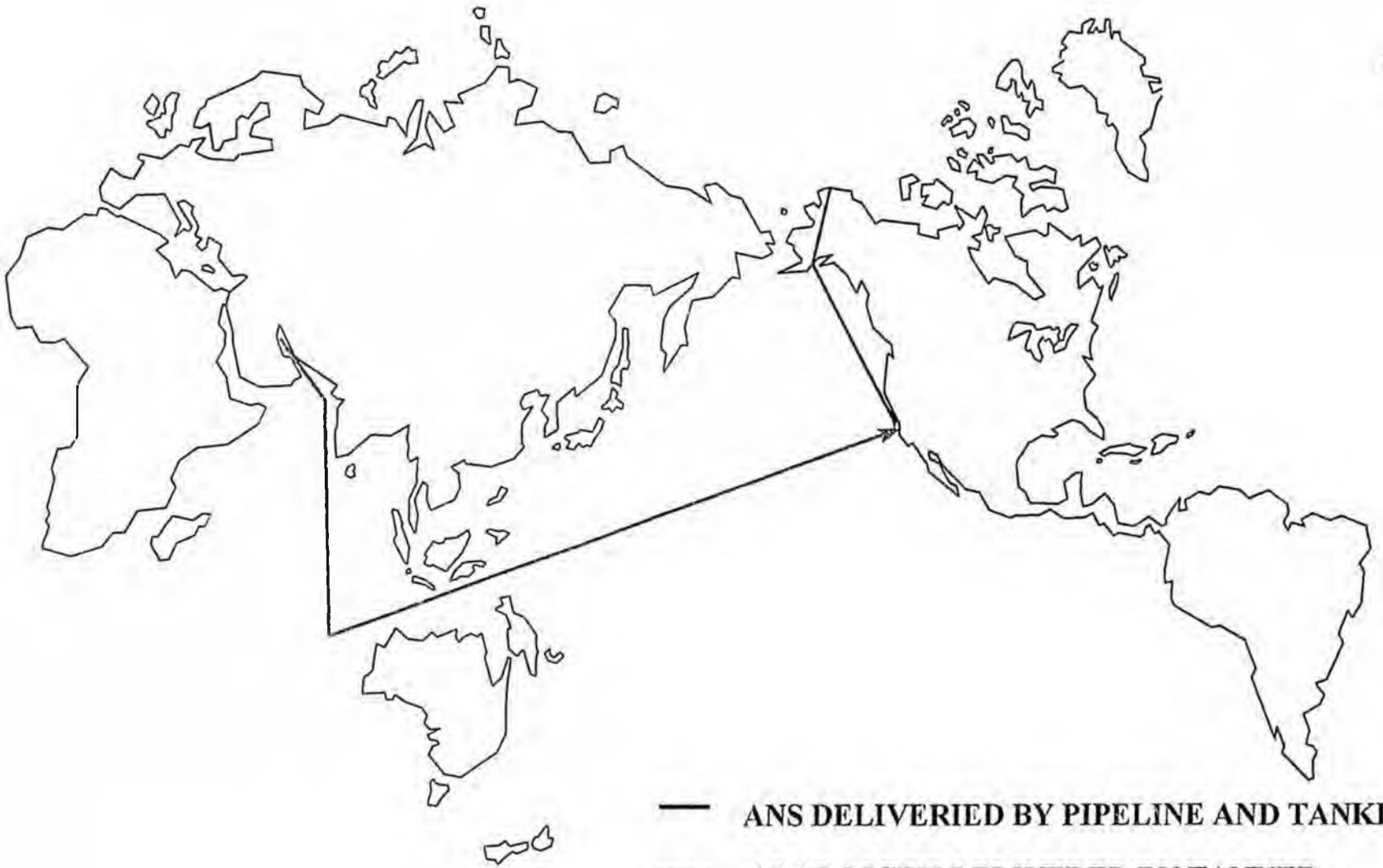


— CARGO C&F KERO JAPAN FOB KERO SINGAPORE WTR KERO [redacted] West Coast

LAST DAY 23-FEB-96

EXHIBIT 9

ANS AND ARAB LIGHT COMPETITION ON THE US WEST COAST



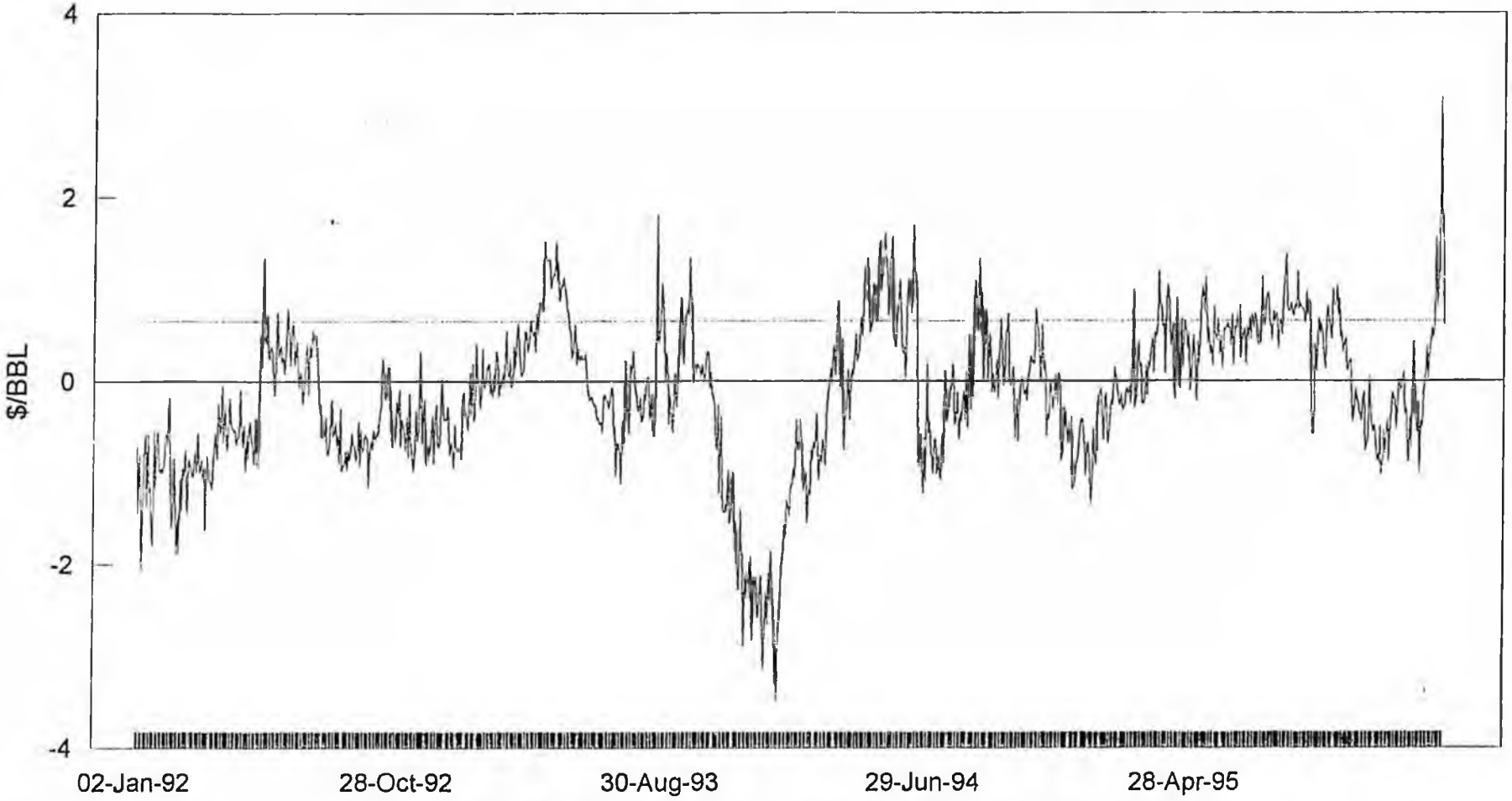
ANS DELIVERIED BY PIPELINE AND TANKER

ARAB LIGHT DELIVERED BY TANKER

EXHIBIT 10

ANS USWC OVER ARAB LT SPOR

PRICE SPREAD



— PRICE AVG -- +1 SD -1 SD

AVG -0.14 STD DEV 0.80
LAST DAY 23-FEB-96

EXHIBIT 11

EXHIBIT 12

U.S. WEST COAST REFINERY
RELATIVE VALUE ANALYSIS
ANS AND ARAB LIGHT

SUMMER SEASON YIELDS
AVERAGE REFINERY UPGRADING MODE
AVERAGE PRICES 1992 THROUGH 1995

CRUDE GRADE		VOLUME % ANS	VOLUME % ARAB LT	NETBACK $/B ANS	NETBACK $/B ARAB LT
PRODUCT	$/B				
PROPANE	15.54	2.42	3.60	0.38	0.56
I-BUTANE	24.36	-3.33	-3.03	-0.81	-0.74
N-BUTANE	21.84	2.73	3.78	0.60	0.83
REGULAR GASOLINE	23.74	44.64	79.30	10.60	18.82
PREMIUM GASOLINE	26.26	8.64	-23.88	2.27	-6.27
KEROSENE	23.56	13.99	15.20	3.30	3.58
DIESEL FUEL	23.00	-5.79	3.27	-1.33	0.75
1.0% RESIDUAL FUEL	14.52	2.64	0.00	0.38	0.00
1.6% RESIDUAL FUEL	13.32	36.92	9.59	4.92	1.28
3.5% RESIDUAL FUEL	13.34	0.00	13.78	0.00	1.84
SULFUR TONS	48	0.08	0.12	0.04	0.06
NET FUEL REQUIRED	15.94	-4.17	-3.91	-0.66	-0.62
VARIABLE REFINING COSTS				-0.80	-0.79
NETBACK TO REFINERY GATE				18.87	19.29
IMPORT COSTS				-0.17	-0.61
FREIGHT COSTS				0.00	-0.96
NETBACK TO SOURCE				18.70	17.72
ANS RELATED MARGIN				2.44	2.44
ANS AVERAGE PRICE $/B				16.26	
EQUILIBRIUM SAUDI LIGHT PRICE $/B					15.29
ACTUAL SAUDI LIGHT AVERAGE PRICE $/B					16.41

INCREMENTAL TOPPING ECONOMICS FOR JET FUEL PRODUCED FROM ANS AND ARAB LIGHT

LOCATION	NORTH POLE		SINGAPORE		CARIBBEAN	
CRUDE	ANS		ARAB LIGHT		ARAB LIGHT	
RETAINED CLEAN PRODUCTS	30%		60%		85%	
	CT/G	$/B	CT/G	$/B	CT/G	$/B
OCTOBER 1995 FREIGHT						
JET FUEL PRICE IN ANCHORAGE	58.3	24.49	58.3	24.49	58.3	24.49
FREIGHT TO ANCHORAGE	7.5	3.15	6.2	2.60	7.3	3.07
JET FUEL NETBACK TO REFINERY		21.34		21.88		21 42
VARIABLE PROCESSING COSTS		0.81		0.42		0.29
FUEL USE % ON PRODUCTS	6.08%	0.81	3.12%	0.52	2.20%	0.38
CRUDE COST		13.34		16.76		17.33
VARIABLE REFINING MARGIN		6.37		4.18		3.42
QUALITY BANK COST		3.23		2.58		1.08
JET FUEL MARGIN LESS QUALITY BANK		3.14		1.60		2.34
EXCISE TAX	3.2	1.34		0.00		0.00
JET FUEL MARGIN LESS EXCISE TAX		1.80		1.60		2.34
JANUARY 1996 FREIGHT						
FREIGHT TO ANCHORAGE	7.5	3.15	11.3	4.75	11.2	4.70
JET FUEL MARGIN LESS EXCISE TAX		1.80		-0.54		0.70

NOTES
1. USED MAPCO DERIVED QUALITY BANK ADJUSTMENT CONCENTRATED ON JET FUEL
2. PRODUCE FCC CHARGESTOCK RATHER THAN LONG RESID IN CARIBBEAN

EXHIBIT 13

INCREMENTAL TOPPING ECONOMICS FOR JET FUEL PRODUCED FROM ANS AND ARAB LIGHT

LOCATION	NORTH POLE		SINGAPORE		CARIBBEAN	
CRUDE	ANS		ARAB LIGHT		ARAB LIGHT	
RETAINED CLEAN PRODUCTS	30%		60%		60%	
	CT/G	$/B	CT/G	$/B	CT/G	$/B
OCTOBER 1995 FREIGHT						
JET FUEL PRICE IN ANCHORAGE	58.3	24.49	58.3	24.49	58.3	24.49
FREIGHT TO ANCHORAGE	7.5	3.15	6.2	2.60	7.3	3.07
JET FUEL NETBACK TO REFINERY		21.34		21.88		21.42
VARIABLE PROCESSING COSTS		0.81		0.42		0.42
FUEL USE % ON PRODUCTS	6.08%	0.81	3.12%	0.52	3.12%	0.54
CRUDE COST		13.34		16.76		17.33
VARIABLE REFINING MARGIN		6.37		4.18		3.13
QUALITY BANK COST		1.32		2.58		1.53
JET FUEL MARGIN LESS QUALITY BANK		5.05		1.60		1.60
EXCISE TAX	3.2	1.34		0.00		0.00
JET FUEL MARGIN LESS EXCISE TAX		3.71		1.60		1.60
JANUARY 1996 FREIGHT						
FREIGHT TO ANCHORAGE	7.5	3.15	11.3	4.75	11.2	4.70
JET FUEL MARGIN LESS EXCISE TAX		3.71		-0.54		-0.04

NOTES
1. APPLY QUALITY BANK ADJUSTMENT EQUALLY TO ALL PRODUCTS
2. ALL 680+ MATERIAL TO RESIDUAL FUEL IN CARIBBEAN

EXHIBIT 14