SJR

3

SENATE COMMITTEE REPORT
First Committee of Referr

DATE: 1/16/95

FURTHER:

Date of 5-Day Notice: 1-19-95
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 2-3-95

Resources Committee considered SJR 3

Opposing the ban on the export of Alaska North Slope crude oil; endorsing federal legislation to remove restraints; requesting the Congress to pass legislation to permit the export of Alaska North Slope crude oil; and urging the President of the United States to support the legislation to lift the ban.

and recommends:

- [ ] be replaced with _____ CS ______________________(________)
- [ ] adopt previous _____ CS ______________________(________)
- [x] attached amendment(s)
- [ ] adopt Letter of Intent by ____________________ Committee
- [ ] further referral to the ____________________ Committee

Senate Bill:
- [ ] same title
- [ ] new title

House Bill:
- [ ] technical change
- [ ] new: SCR* _____

SIGNING WITH RECOMMENDATIONS:	DP	DNP	NR	AM
[signature]	✓			
[signature] Hoffman	✓			
[signature]	✓			
Rick Halford	✓			
CHAIR: [signature] Loren S. Leman	✓			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
Revenue	1-23-95	✓	

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal

- [ ] APPROPRIATION -- no fiscal note

*include fiscal notes accompaning Governor's bill

1 oil; and

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

5 **WHEREAS** the export ban singles out Alaska to pay its costs, penalizing the state and
6 the North Slope producers, which pay 85 percent of the taxes collected by the state; and

7 **WHEREAS** the current export ban reduces the value of crude oil production in the
8 state by an estimated $1,000,000,000 per year, or about $1.10 per barrel; and

9 **WHEREAS** Alaska North Slope crude oil required to be transported and delivered for
10 sale in the domestic market incurs approximately $2.70 per barrel in higher transportation
11 charges than if the oil could be exported in international tankers to Pacific Rim countries; and

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

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

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

20 **WHEREAS** exporting oil to Pacific Rim nations will decrease the substantial trade
21 deficit with nations that have expressed a strong interest in purchasing Alaska produced oil,
22 as evidenced by the sale under a United States Department of Commerce export license of
23 Alaska Cook Inlet oil to a Taiwanese company; and

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

28 **WHEREAS** the additional cost of shipping Alaska North Slope crude oil to the Gulf
29 Coast and eastern states imposes an unnecessary burden on those states, reduces federal and
30 state tax revenue, reduces state royalties, and discourages exploration and development of
31 North Slope reserves; and

Senate Resources Committee
SJR 3

Testimony of Beverly Ward
Government Relations, ARCO Alaska, Inc.
February 3, 1995

Mr. Chairman, members of the Senate Resources Committee. My name is Beverly Ward. Thank you for the opportunity today to add ARCO's voice to the chorus of those asking that the oil export ban be lifted. We pledge our support to work with the state to win passage of federal legislation eliminating the ban on the export of North Slope oil.

Prior to the 1994 election, we judged passage of legislation lifting the export ban as very unlikely. It now appears passage is possible.

ARCO will not benefit from elimination of the export ban. But because of the potential benefit to the state -- and at the request of the Knowles Administration -- we re-evaluated our long standing neutral position on this issue and decided the time had come to join the state in working to open Pacific Rim markets to Alaska oil.

We will make clear to members of Congress our support for legislation eliminating the export ban. We will also work closely with the Alaska Congressional Delegation, the Legislature and the Knowles Administration on this issue in whatever way is appropriate.

We applaud your efforts through SJR 3 to lift the oil export ban.

BP Testimony on the Lifting of the
Export Ban on Alaska North Slope Crude
Presented to the Senate Resources Committee
February 3,1995

Good morning, Mr. Chairman and members of the Senate Resources Committee. My name is Jim Palmer and on behalf of BP, I am pleased to provide the following testimony to the Alaska State Legislature. This testimony discusses the future of oil production on Alaska's North Slope, and how artificial federal constraints, such as the ban on its export, effect our ability to market it efficiently.

The history of Alaska North Slope oil production is one of remarkable achievement. In the past two decades, the oil industry has invested more than $50 billion (in today's money terms) in realizing the Alaska North Slope's hydrocarbon potential.

We've nearly doubled the volume of oil we expect to recover from the region through a combination of technological advances and massive capital investment. In 1977, we expected to recover less than 10 billion barrels of oil from a single Alaska North Slope field. Today we're producing oil from a number of fields surrounding Prudhoe Bay. The industry has just produced our 10 billionth barrel of oil, yet we have a similar amount in booked and likely reserves. We postponed Prudhoe's inevitable decline by nearly four years, and today based on the State of Alaska's own forecasts, the North Slope is producing some 600,000 barrels more per day than were projected less than a decade ago.

These achievements are particularly remarkable given the competitive disadvantages of Alaska's North Slope -- disadvantages stemming primarily from harsh climatic conditions, remoteness, and federal restrictions on access to world crude oil markets imposed by the ANS export ban.

But today, the future of this critical domestic resource is in double jeopardy. Production is in decline, and margins that are the lifeblood of the ongoing investments that sustain production are being squeezed as never before by upward pressure on Alaska North Slope costs.

BP, along with our industry partners, have been at the forefront of the industry in doing everything we can to enable Alaska North Slope oil to compete effectively for investment capital in a fiercely competitive world oil market. We've left no stone unturned in searching for new ways to do more for less, and we've stemmed the tide of soaring costs in the late '80s and early '90s.

We've completely retooled our relationships with contractors and field partners. We've reduced our staff levels and overhauled the way we do business within BP. These efforts have reduced our operating costs and enabled us to actually reduce per-barrel operating costs in an atmosphere of declining production without sacrificing safety or our environmental performance.

Because of Alaska's high field development costs, as well as restricted access to world crude oil markets, netbacks on Alaska North Slope production are disproportionately low vis-a-vis those of lower-cost hydrocarbon areas of the world that have unrestricted access to crude oil markets.

Much of the Alaska North Slope production we currently project for the year 2000 depends on investments yet to be made.

More than ever before, the environment dictates that investments be directed to areas offering the highest margins at the lowest risks. With the end of the Cold War and so much of the world now competing for energy investment, returns on those investments have become the prime consideration as companies allocate increasingly scarce capital resources.

The competitiveness of these investments is crucial not only to BP and the Alaskan oil industry, but to the federal government and to the State of Alaska.

The federal government has a significant economic stake in the health of the domestic oil industry.

Many of the individual states also hold large stakes in the health of the domestic industry. Those with significant oil production, like Alaska and California, realize substantial tax and royalty revenues. They also benefit from a significant number of jobs both directly and indirectly linked to oil industry investment.

Much has been said and written about the hydrocarbon potential of Alaska's North Slope. There's a general consensus that the potential significantly exceeds reserves already produced on the company books. This potential comes from existing discoveries, additions and extensions that would be economic, given the availability of investment resources. We at BP concur with this assessment.

It is important to understand that noncompetitive margins have two effects. First, they reduce production of both existing and potential resources and remove cash from the system, making investments more difficult even in potentially profitable opportunities.

It's no longer enough that BP and the rest of the industry, through hard work and innovation, are reducing our costs. In order to maintain the competitiveness of Alaskan investments, it's critical that everyone with a stake in the future of the Alaskan oil industry does his and her part to help ensure its long-term health.

Federal restrictions on our ability to market Alaska North Slope oil where it will generate the highest possible returns hurt producers and the State of Alaska by reducing netbacks on North Slope oil. These restrictions are costly and an unnecessary burden on our ability to compete. Lifting these restrictions will help to restore Alaska's competitiveness for future investment by boosting the wellhead value of ANS crude.

The world has changed dramatically from the days when export restrictions on ANS crude were first imposed ... days of real and perceived supply shortages and an energy crisis mentality. Today, with open markets, improved trade flows, access to new oil and gas provinces and significant discoveries throughout the world, the supply-demand balance has reversed itself.

Restrictions on ANS exports that were based on fears of supply shortages are no longer appropriate. But failure to maintain investment because of loss of competitiveness will not help. Removing the restrictions and providing incentives will maximize domestic production if supply crises should occur in the future.

BP and the Alaskan oil industry will continue to do our part by doing all we can to make Alaska North Slope investments competitive. But we can no longer do it alone.

By directly or indirectly relieving the burden of unnecessary restrictions on our ability to compete, the federal government will not only demonstrate its commitment to do <u>its</u> part to enhance the competitiveness of Alaska North Slope oil, but also to help ensure the long-term health of this critical domestic resource.

BP strongly encourages the State of Alaska to support lifting the ANS export ban.

Thank you for this opportunity to address these important issues.

FISCAL NOTE

STATE OF ALASKA **BILL NO.** SJR 3
1995 LEGISLATIVE SESSION

Revision Date: 1/23/95 Dept. Affected:
Title: \ resolution urging the lifting of the ANS export ban BRU:
Component:
Sponsor: Ellis, Duncan, Kelly, et.al.
Requester: Ellis **COMPONENT SERIAL NO.**

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
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 ( )	80,000.0	40,000.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cost: $

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

If the export ban were lifted, Alaska North Slope oil (ANS) in excess of U.S. West Coast needs could be shipped to the Far East instead of making the long and costly trip via Panama to the U.S. Gulf Coast. Assuming current prices and transportation costs mandating use of Jones Act tankers, lifting the ban would increase the wellhead value of ANS by over $.50/bbl and thus increase State taxes and royalties. The window of opportunity to enhance State revenues by lifting the export ban is closing. ANS production is projected to continue to decrease so that the West Coast surplus of ANS is projected to disappear by FY 1997. When the West Coast ANS surplus disappears so will the direct benefit to the state treasury from lifting the export ban.

Prepared by: John Pilkinton Phone: 277-5627
Division: Oil and Gas Audit Division Date: 1/25/95
Approved by Commissioner: Deborah Vogt Date: 1/23/95
Agency: Revenue

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Anchorage Daily News Jan 27, 1995

Arco changes stance, backs lifting of ban

By KIM FARARO
and RALPH THOMAS
Daily News reporters

Arco will support lifting the oil-export ban after years of remaining neutral on whether North Slope crude should be sold abroad, Gov. Tony Knowles said Thursday.

The move will likely help Alaska's congressional delegation in its bid to overturn the ban, because the state's oil industry will not be as divided on the issue. British Petroleum — the state's top oil producer — has been pushing to end the export prohibition. Arco and Exxon — the Nos. 2 and 3 producers — had not joined BP's lobbying.

But even with Arco's change of heart, significant hurdles to ending the ban remain. The newest obstacle arose recently when a Senate rule maker sent legislation on the ban to a committee run by New York Sen. Alfonse D'Amato. D'Amato opposes North Slope exports.

Lifting the ban could increase Alaska's oil revenue tens of millions of dollars a year by allowing producers to send their crude to Asian ports closer to Alaska than Gulf of Mexico refineries. That would decrease producers' transportation costs, which are deducted from taxable revenue.

BP would benefit because the company owns

Please see Page B-3, OIL

OIL: Arco backs lifting of export ban

Continued from Page B-1

most oil produced on the North Slope and cannot sell all its crude on the West Coast as Arco and Exxon have been able to.

Knowles said he learned of Arco's new position Thursday, when Arco Alaska president Ken Thompson called him. The announcement follows Knowles' recent trip to Arco's Los Angeles headquarters, where he asked high-level officials to support Alaska's efforts to repeal the ban.

Knowles said Thursday that Thompson told him the trip had helped sway Arco's executives. The governor said he was pleased by Arco's turnaround and thinks it will have a "significant" impact on deliberations in Congress.

Arco Alaska spokesman Ronnie Chappell confirmed the policy change but said the company will not discuss the change until officials brief Alaska's senators and Rep. Don Young. He said the briefings would be held Thursday and today.

In the past, Arco officials have said they didn't have strong feelings about the ban because it has little effect on the company. Arco refines its North Slope crude in its West Coast refineries.

BP has no West Coast refineries and, although it sells some of its crude there to other companies, it must send the rest to the Gulf Coast.

The ban began in 1973 after the Organization of Petroleum Exporting Countries launched an oil embargo that made Americans fearful for their energy security. Efforts to abolish the ban since then have met with strong opposition from maritime unions and their supporters in Congress. Last year, BP tried breaking the impasse by negotiating with the unions, and Alaska's senators proposed legislation that said any exports would travel on U.S. ships with U.S. crews. But the plans didn't succeed.

Alaska's all-Republican delegation was heartened when their party won control of both houses of Congress in November and hoped to abolish the ban quickly. But the news that D'Amato would get a shot at a bill to lift the ban was a setback.

D'Amato's constituents include the owners of Northville Industries, which operates a pipeline across Panama. The line carries North Slope crude unloaded by Pacific Ocean tankers and picked up by tankers on the Atlantic side. Those tankers then ship the crude to Gulf Coast refineries.

JOHNNY ELLIS
SENATOR

STATE CAPITOL, ROOM 9
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ALASKA STATE LEGISLATURE
SENATE

Sponsor Statement for
SJR 3
Requesting Congress to Lift the Ban on the export of
Alaska Crude Oil

SJR 3 endorses federal legislsation removing restraints on the exportation of Alaska North Slope crude oil, and requests that the President of the United States present a recommendation to lift the oil export ban.

Lifting the export ban will enhance the economic vitality and security of Alaska. Exporting Alaska North Slope crude oil will encourage and facilitate further oil exploration in Alaska and other states, creating a greater degree of national energy self-sufficiency.

Due to the high transportation costs associated with shipping Alaska North Slope crude oil to Gulf Coast states through the Panama Canal, the wellhead price of oil is reduced. Since Alaska oil cannot be exported, it is sold at a discount price on the West Coast to be price competitive with California crude. This surplus of oil depresses the value of Alaska and California oil, and subsequently has a negative impact on the economies in both states. Lifting the ban would alleviate this surplus, raise the barrel prices of all oil, and increase State revenues.

At a conservative estimate, Alaska would gain from billions of dollars in added revenue and economic benefits. Exporting oil would foster more oil exploration and development by making ventures deemed economical risky under current production values more lucrative. Oil export would also help to offset the United States' trade deficit.

The potential vulnerability of the United States to embargoes - which led to the imposition of the ban - has been greatly mitigated. President Bush partially lifted the ban on California oil exporting, proving that national security and scarcity of domestic oil no longer outweigh potential economic gains. The North American Free Trade Agreement has further reinforced the need to repeal the Alaska oil export ban and President Clinton announced last summer that he would support a repeal of the ban. Clearly, the time to lift the ban is now.

I urge you to support SJR 3. Lifting the ban on exporting oil is critical to the future economic security of our state.

Department of Commerce & Economic Development / POSITION PAPER

SENATE JOINT RESOLUTION NO. 3

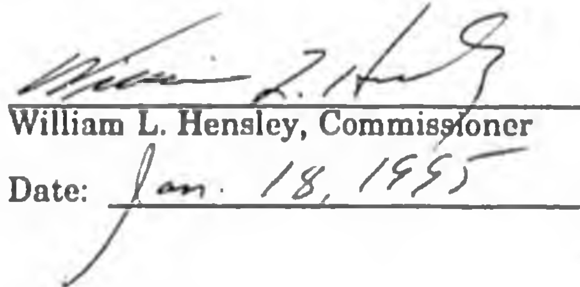
The Department of Commerce and Economic Development supports passage of Senate Joint Resolution No. 3.

The Alaska North Slope export ban is a significant barrier to investment in the region.

In a recent study commissioned by the department to undertake an analysis of the Alaskan oil and gas industry with regard to the State's attractiveness to the industry in the current climate, the consultants found:

> *The federally-imposed Alaska North Slope Export ban, which has been in effect since the first production from the area, is a major disincentive. The ban effectively precludes the North Slope oil from being sold into the highest value markets, in particular Japan and Korea. This ban, which has been the subject of ongoing debate, assumes critical importance in a period of soft oil prices.*

This resolution supports all efforts to obtain passage of federal legislation permitting the export of Alaska North Slope crude oil, regardless of the point of production within the state.



William L. Hensley, Commissioner

Date: Jan. 18, 1995

Legislative Research Agency

Alaska State Legislature

130 Seward Street, Suite 218
Juneau, Alaska 99801-2196

Phone: (907) 465-3991
Fax: (907) 463-3351

January 20, 1995

MEMORANDUM

TO: Senator Johnny Ellis

FROM: Linda J. Snow
Legislative Analyst

RE: **Current Developments Regarding the Federal Ban of the Export of North Slope Crude Oil**
Research Request 95.070

You asked us to provide an update on current developments regarding the federal ban on exporting North Slope crude oil. The following is a summary of recent developments in the courts and in the U.S. Congress.

Litigation

The state has two lawsuits in progress challenging the ban. In a suit filed in federal district court[1], the state alleges that the ban violates the tenth amendment, the guarantee clause, and the port preference clau of the U.S. Constitution. On March 1, 1994, the district court granted the United States' motion for summary judgement, finding the ban constitutional. The state has appealed the case to the ninth circuit court, both parties have submitted briefs, and oral argument is pending[2].

---

[1]State v. Brown, United States District Court, A92-364-CV (JWS), Ninth Circuit Court of Appeals No. 94-35686.

[2]See Attachment A, a summary of the case prepared by Joanne Grace, Alaska assistant attorney general, Anchorage.

In a suit filed in the federal claims court[3], the state is seeking $2.5 billion for a fifth amendment taking[4]. The claims court recently lifted a two year stay of the case, and the United States filed a motion to dismiss. Both parties are currently briefing that motion[5].

Federal Legislation

Senate Bill 70, and corresponding House Bill 70 have been submitted to Congress this session and are currently in committee. These bills call for an end to the ban on the export of North Slope oil, and providing that the oil be transported to market by U.S. flagged vessels. Attachment B is a copy of SB 70. According to Mark Dinneen of the Governor's Washington, D.C. office, the prospects of the ban being lifted have increased due to the Alaska congressional delegation's position in the majority, and as chairs to several influential committees this session. Mr. Dinneen also stated that British Petroleum and the U.S. maritime unions were supporting the bill this session. As opposition to the bill, Mr. Dinneen named the west coast refineries, the state of California, and U.S. automobile manufacturers[6]. A U.S. Department of Energy study of the costs and benefits of the ban was released in June of 1994, and was supportive of lifting the ban[7].

I hope this information is helpful to you. If you would like further assistance, please don't hesitate to call us. Also, you could contact directly Mr. Dinneen at (202) 624-5858 or Ms. Grace at (907) 269-5100.

---

[3]State v. United States, United States Court of Federal Claims, 92-3141 [Oil Export Ban].

[4]The fifth amendment does not allow the government to take property without compensation. The state is claiming that the federal government is restricting the markets where Alaska can sell its royalty oil, thereby rendering that oil of lesser value than it would have in a world market. The state is requesting compensation for its loss of revenue due to the export ban.

[5]See Attachment A, a summary of the case prepared by Joanne Grace, Alaska assistant attorney general, Anchorage.

[6]According to Mr. Dinneen, west coast refineries will have to pay world market price of North Slope oil if the ban is lifted, impacting the economy of California. Also, U.S. automobile manufacturers would like to see the balance of trade improve because of more automobile exports, not oil exports.

[7]*Exporting Alaska North Slope Crude Oil: Benefits and Costs*, U.S. Department of Energy, June 1994, DOE-PO-0025.

ATTACHMENT A

**Summary of Oil Export Ban Litigation,
prepared by Joanne Grace, Alaska Assistant Attorney General**

State v. Brown, United States District Court, A92-364-CV (JWS), Ninth Circuit Court of Appeals No. 94-35686; State v. United States, United States Court of Federal Claims, 92-3141 [Oil Export Ban].

SUMMARY OF CASE:

In 1992, the State filed two lawsuits against the United States to challenge the ban on the export of North Slope crude oil. The State filed one case in the federal district court in Anchorage, alleging that the ban violates the tenth amendment, the guarantee clause, and the port preference clause of the U.S. Constitution, and one case in the Court of Federal Claims, seeking $2.5 billion compensation for a fifth amendment taking. The State is represented by Birch, Horton, Bittner & Cherot.

The claims court stayed the takings case for two years for procedural reasons, but recently lifted the stay. The United States filed a motion to dismiss, which the parties are briefing.

In the district court case, the court granted the United States' motion for summary judgment on March 1, 1994, finding the ban constitutional. The state has appealed to the ninth circuit, and the parties have briefed the appeal and are awaiting oral argument.

ATTACHMENT B

Senate Bill 70
Exports of Alaskan North Slope Oil
104th Congress, First Session

II

104TH CONGRESS
1ST SESSION

S. 70

To permit exports of certain domestically produced crude oil, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 4, 1995

Mr. DOLE (for Mr. MURKOWSKI) (for himself, Mr. BREAUX, Mr. STEVENS, and Mr. HEFLIN) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To permit exports of certain domestically produced crude oil, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. EXPORTS OF ALASKAN NORTH SLOPE OIL.**
4 Section 28 of the Act entitled "An Act to promote
5 the mining of coal, phosphate, oil, oil shale, gas, and so-
6 dium on the public domain", approved February 25, 1920
7 (commonly known as the "Mineral Leasing Act") (30
8 U.S.C. 185), is amended—
9 (1) by striking subsection (s) and inserting the
10 following:

1 "EXPORTS OF ALASKAN NORTH SLOPE OIL

2 "(s)(1) Subject to paragraphs (2) and (3), notwith-
3 standing any other provision of law (including any regula-
4 tion), any oil transported by pipeline over a right-of-way
5 granted pursuant to section 203 of the Trans-Alaska Pipe-
6 line Authorization Act (43 U.S.C. 1652) may be exported.

7 "(2) Except in the case of oil exported to a country
8 pursuant to a bilateral international oil supply agreement
9 entered into by the United States with the country before
10 June 25, 1979, or to a country pursuant to the Inter-
11 national Emergency Oil Sharing Plan of the International
12 Energy Agency, the oil shall be transported by a vessel
13 documented under the laws of the United States and
14 owned by a citizen of the United States (as determined
15 in accordance with section 2 of the Shipping Act, 1916
16 (46 U.S.C. App. 802)).

17 "(3) Nothing in this subsection shall restrict the au-
18 thority of the President under the Constitution, the Inter-
19 national Emergency Economic Powers Act (50 U.S.C.
20 1701 et seq.), or the National Emergencies Act (50 U.S.C.
21 1601 et seq.) to prohibit exportation of the oil."; and

22 (2) by striking subsection (u).

1 **SEC. 2. EFFECTIVE DATE.**

2 This Act and the amendments made by it shall take

3 effect on the date of enactment.

O

The Anchorage Times

***Publisher:* BILL J. ALLEN**

"Believing in Alaskans, putting Alaska first"

Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN

The editorial page commentary in this segment of the *Anchorage Daily News* does not represent the views of the Daily News. It is written and published under an agreement with former owners of The Times in the interests of preserving a diversity of viewpoints in the community.

[illegible]

End export ban

AS THE CLINTON administration sets out to do yet another study of the effects of the ban against exporting Alaska's North Slope oil, we bring to your attention two other recent economic studies of the subject: one was prepared last year by the Alaska Department of Revenue. The other, still in draft form, is the work of Economic Insight, Inc., a Portland, Ore., economic consulting firm.

Both analyses come to the same conclusion: the prohibition on the export of Alaska oil is detrimental to both Alaska and California oil production and economies, and more important, to the nation's long-term energy security.

"The ban flies in the face of market efficiency and is a classic example of political rather than economic reasoning," is how the Alaska report sums it up.

"The artificial inhibition of U.S. oil production has severe consequences for jobs and economic growth," says the Portland study. "The cost could be as high as $200 billion and amount to hundreds of thousands of well-paid jobs in petroleum development, oil-field services, manufacturing and transportation."

Stated simply, both studies conclude that the ban results in an ongoing oversupply of heavy crude available for refineries on the West Coast. That oversupply reduces the market value of Alaska's and California's production.

If Alaska's oil were free to compete on the world market and, say, be sold in Japan, the wellhead value for each barrel of oil produced in Alaska would increase by an estimated $1-to-$5 per barrel.

The total impact of this additional value per barrel, according to the state study, would be in the neighborhood of just under $200 million in additional state revenues, almost $300 million for the federal government and more than $500 million for the producers.

Both studies project that the incentive of a better return for the producers would mean additional investments to explore for new oil in remote areas of Alaska and would provide more impetus for the industry to undertake the more costly development of reservoirs such as the West Sak field.

The oil industry has already invested some $67 billion developing Alaska oil fields and transportation facilities, the Portland study notes. Continuation of the export ban — and thus the disincentive to produce Alaska oil — diminishes the prospect that additional significant investments will be made.

"The export ban of oil threatens to inhibit the development of as much as 10 billion barrels in Alaska and California over the next several decades," says the report. In an era of budget deficits and constrained public spending "it is nothing less than thickheaded imperviousness" to continue the ban, it concludes.

Let's trust President Clinton's team can come to the same conclusion.

Background

Anchorage Daily News Friday, May 27, 1994

Oil export ban

The end is near?

It was a bad idea then, and it's a bad idea now. Alaskans knew that the export ban on North Slope crude was the price they had to pay for congressional approval of the trans-Alaska pipeline. A coalition of unions, businesses, and some environmentalists demanded the ban.

While the ban was alternately displayed as a matter of national security in response to the '70s oil shortage ("Let's keep that oil home") and environmentalism ("Let's keep foreign tankers out of Alaska's pristine waters"), the real issue was jobs and dollars. U.S. maritime unions and their allies knew they would benefit mightily.

Two decades later Alaskans and the oil companies still are underwriting the cost of the ban. Yet it now appears the Clinton administration has decided the price tag is too high for the country.

A preview of the administration's long-awaited export ban study highlights the benefits of a policy change. What benefits? How about 7,000 new oil industry jobs in California and Alaska. How about, if American ships transport the oil abroad, $86 million to the state treasury and $153 million for the oil companies every year? How about an additional $284 million to the federal Treasury, mostly from higher oil taxes?

If that's not enough, how about reducing our trade deficit with Japan? Or how about reducing the glut of cheap oil on the American West Coast, which hurts Alaska?

Trade Representative Mickey Kantor has been attempting to reduce Japanese barriers to American trade for 16 months. Yet here's an irrational naval blockade that Americans created themselves, a barrier that hurts both the United States and Japan.

The export ban was a shaky proposition in the '70s. It's indefensible now, even if the Senate Banking Committee recently succumbed to special interest pleading and voted to extend it another four years.

President Bill Clinton and Congress should act boldly. They should ban the ban when it comes to the floor of Congress for a renewal vote. And they should let Alaska oil travel to where it will do the most good and get the best price.

JULY 1, 1994

If oil is sold abroad

Feds see more jobs, revenue

By DAVID WHITNEY
Daily News reporter

WASHINGTON — Lifting the ban on the export of North Slope oil would lead to higher revenues for Alaska, California and the federal government while at the same time adding more than 11,000 jobs to the economy, the Energy Department said in a long-awaited report Thursday.

"The study concludes that the export of Alaskan oil would yield clear economic and energy benefits to the country," Energy Secretary Hazel O'Leary said in a prepared statement.

But the report, held up for revisions for weeks by the White House, made no recommendations. It came a week after President Clinton met with lawmakers from oil- and gas-producing states and voiced willingness to consider lifting the ban. Clinton needs more time to fully evaluate the issue before he makes a recommendation to Congress, the Energy Department said in a written statement.

Congress has banned the export of North Slope oil since passage of the 1973 law authorizing construction of the 800-mile trans-Alaska pipeline. The pipeline now carries about 1.6 million barrels of oil from Prudhoe Bay to tanker loading docks in Valdez.

Most of that oil is sold to

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OIL: Exporting Alaska crude may pay

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West Coast refineries, some of which are owned by North Slope producers.

But about 250,000 barrels a day are transported at high cost to Gulf Coast refineries. The theory is that if that oil can be sold to Japan, transportation costs will drop, federal and state revenues will grow, and there will be more money to invest in oil production that will put more people to work.

The chief opponent to lifting the ban in the past has been the U.S. maritime unions, but they agreed this spring to support exports as long as the oil is moved on U.S. tankers manned by American crews.

The biggest obstacle to lifting the ban, however, may be international trade concerns. The White House is concerned that authorizing exports only on U.S. tankers would be viewed as protectionist just as a new round of trade talks to eliminate foreign ship-building subsidies are about to begin.

Still, the deal with the maritime unions and now the Energy Department report gives Alaska the best chance it's ever had in Congress to lift the ban, said John Katz, Gov. Wally Hickel's top aide in Washington.

And Hickel said in a written statement Thursday that while he was pleased with the Energy Department's findings, Alaska would still pursue its $2.5 billion lawsuit against the federal government over the export ban.

"We look forward to the day that the ban is lifted and Alaska is treated the same as every other state by being allowed to export its resources to our most appropriate markets," Hickel said.

The issue will probably come up on the Senate floor later this month when the chamber takes up the Export Administration Act. In 1984, the Senate killed a measure to lift the ban on a 70-20 vote.

Alaska's congressional delegation said it was delighted with the strength of the Energy Department's study.

The only sour note, said Sen. Ted Stevens, was the department's reaffirmation of the administration's opposition to opening the Arctic National Wildlife Refuge to drilling.

Deputy Energy Secretary Bill White repeated the Clinton administration's commitment not to develop the refuge, or other environmentally sensitive areas of the Outer Continental Shelf.

"This administration has been very consistent in its opposition to opening up the onshore wilderness area to new drilling," he said.

Rep. Don Young, who has sent Clinton a letter signed by [illegible] other lawmakers urging his support for lifting the ban, called the report "a tremendous step forward in our long battle."

"In the face of this report, it seems clear that there is no reason for the ban to last another day," Sen. Frank Murkowski said.

But substantial opposition remains. Leading it is the Coalition to Keep Alaska Oil, made up of labor unions, consumer groups and independent refiners. Last month the group released its own study rebutting most of the benefits claimed by the Energy Department report.

Coalition director Howard Marlowe called the report "preposterous."

"The Energy Departmen has used outdated and unre alistic assumptions tha don't come close to suppor ing its conclusions," he saic "This may play well for 2 hours. After that, the stud will run up against the real ties that lifting the ban wi create economic harm on th West Coast."

Among the key finding of the study, prepared afte a series of public hearings i California and Alaska, ar that lifting the ban would:

- Not raise gasoline price substantially on the We Coast and presents no env ronmental concerns.
- Bring Alaska at leas $700 million and perhaps a much as $1.6 billion in add tional revenues over th next six years. The increas would accrue because lowe transportation costs woul increase the wellhead pric of the oil.
- Mean less Alaska oi flooding the West Coast ma ket. That would be an incer tive to oil production fror oil fields in California, ac ding as much as $230 millio to California's state treasur over the next six years.
- Increase oil compan profits by more than $1 bi lion by the year 2000.
- Add as much as $56 million to the nation's Gros Domestic Product by the en of the decade. Using Labo Department figures that e timate one new job for ever $50,000 increase in the GD the Energy Department sai total employment wou climb by as many as 11,2 jobs. Job gains could b much higher if the wor price of oil climbs.

The Associated Press cor tributed to this story.

Export ban is Congress's to lift, DOE says

Lifting restriction would create between 16,000 and 25,000 jobs in United States

By A.B. STODDARD
[illegible]

WASHINGTON — President Clinton is not planning to lift the ban on exports of Alaskan oil by executive order and will wait to work with Congress on the issue, a Department of Energy official said Thursday.

Because the 21-year-old ban, which restricts the export of crude from Alaska's North Slope, is written into so many different laws it would be difficult for the president to lift it by an executive order, according to Bill White, deputy energy secretary.

"Our lawyers said that this unilateral decision was not something that was viable," White said in a telephone interview from Moscow, where he is participating in an energy conference with Russian officials.

But working with Congress to legislate a repeal of the ban remains a priority for the administration, White said.

"I think that's something that is going to be at the top of my agenda to be working on when I get back," he said.

President Clinton announced his conditional support for lifting the ban at a June 16 meeting with the lawmakers from oil and gas producing states. He said potential trade complications involving provisions in the General Agreement on Tariffs and Trade and concerns about the shipbuilding industry had to be worked out with other countries.

Those who want to keep the ban in place include members of the shipping industry who fear job loss as a result of Alaska oil being exported on foreign ships or ships being repaired abroad.

White said that while the trade questions still persist, progress has been made and the administration will "work on legislation we can get through" the next Congress.

The Energy Department released a report in June that said lifting the ban would create between 16,000 and 25,000 jobs in the United States as well as increase oil production in California and Alaska by 100,000 to 110,000 barrels per day.

Most small California oil producers argue that Alaska crude floods the California market and depresses oil prices there. Allowing Alaska oil to flow abroad, they say, would create more demand for California crude and in turn raise the state's oil prices.

Those who want to keep the ban in place include members of the shipping industry who fear job loss as a result of Alaska oil being exported on foreign ships or ships being repaired abroad. However, the major maritime unions announced this summer that they would support a lift of the ban if the crude was shipped on Jones Act vessels — those built, owned and crewed by American merchant seamen.

Some refiners who currently use Alaska oil also oppose lifting the ban because of the costly reconfiguration their refineries would require to switch to California crude, which has a different quality.

Although Alaska's congressional delegation has stated that a Republican majority in Congress would help the bid to lift the ban, White declined to say how GOP control would affect the issue.

Howard Marlowe, director of the Coalition to Keep Alaska Oil — which opposes lifting the ban — said the new Republican majority is not necessarily going to affect the move to repeal the export ban.

"The fact is that a significant part of the opposition in Congress will come from, and has always come from, Republicans," Marlowe said.

The Republican Alaska delegation — with Rep. Don Young and Sen. Frank Murkowski likely to chair the Natural Resources committees for both chambers — has stated they will attach a lift of the ban to the reauthorization of the Export Administration Act.

"This particular election places the Alaska delegation in positions of power which will give them increased opportunity to move an export proposal," Marlowe said.

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Background

THE ALASKA NORTH SLOPE CRUDE OIL EXPORT BAN REVISITED 1992

by

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THE ALASKA NORTH SLOPE CRUDE OIL EXPORT BAN REVISITED 1992

INTRODUCTION

Numerous articles and analyses have been prepared examining the Alaska North Slope (ANS) Crude Oil Export Ban (Higgins and Jenkins-Smith, Tussing et. al., and the U.S. Department of Energy). Policy analysis of the issue has attracted economists of many different stripes because the ban flies in the face of market efficiency and is a classic example of political rather than economic reasoning.

In this short paper it is not my intent to review in depth the reasons why lifting the export makes economic sense, rather I will attempt to illustrate by use of a simple global oil price equilibrium model, what I believe the impact of the ban has been on U.S. West Coast oil prices and consequently on oil production in both California and Alaska, and on public revenue.

THE ANS EXPORT BAN

The export of ANS was restricted as part of the legislation authorizing the construction of the Trans-Alaska Pipeline System (TAPS). The 900 mile long TAPS stretching from Arctic Alaska's North Slope to the ice free tidewater port of Valdez provided market access to the super giant Prudhoe Bay oil field. Over the years the restrictions have been extended or tightened nearly each time the Congress has passed trade legislation.

The national benefits to the United States of lifting the ban are well known and can be summarized as follows:

1. Higher wellhead values for crude oil production in Alaska and California create the incentive to increase U.S. oil production and energy security.

2. Public revenue will increase due to the higher wellhead value easing the Federal deficit.

3. U.S. balance trade with the Pacific Rim countries would be improved.

The reason why the ban continues even in the face of overwhelming economic logic is quite simply national politics.

The costs of lifting the ban would be absorbed by domestic shipping interests. The maritime interests are a powerful political force which includes:

1. ANS producers who built the required U.S. constructed and flagged tankers to comply with the Jones Act requirement that only such tankers can be used in US coastwise shipping implied by the export ban.

2. Individual Jones Act tanker owners.

3. The banks who finance tanker construction.

4. The maritime unions which crew the tankers.

Other groups favoring the ban include:

1. The U.S. Department of Defense since the ban provides an off budget means of securing a domestic tanker capability.

2. Environmental groups who oppose policies which increase domestic production of oil.

3. Representatives of states which rely on imported oil.

4. Those politicians who are antagonistic toward free trade with the Pacific Rim, particularly Japan.

CALIFORNIA CRUDE OIL PRICES

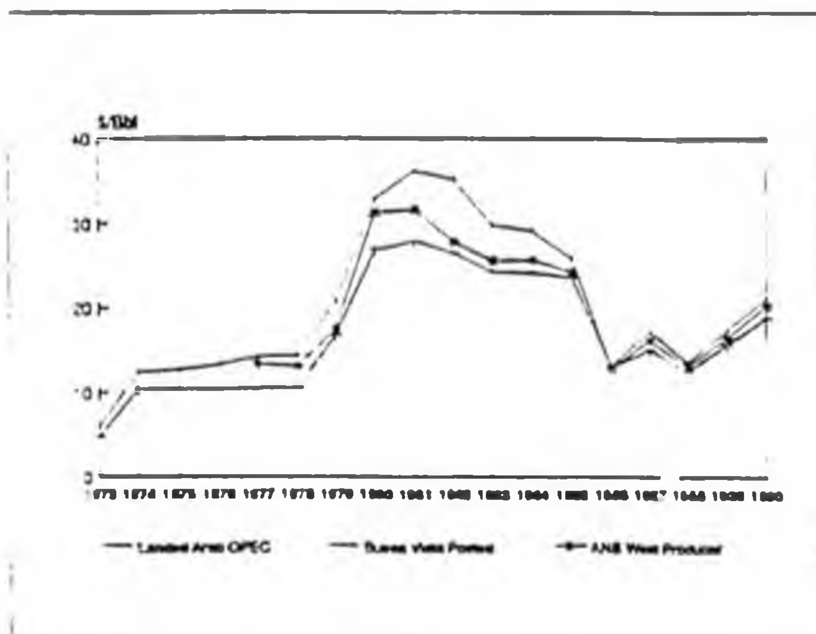
The California crude oil market has developed in isolation from the rest of the US. The development of significant reserves in the area and the natural barrier represented by the mountain ranges of the western U.S. limited the development of a West to East or vice versa crude oil transportation system. Further, most crude oil is moved to either the San Francisco Bay area or Los Angeles/Long Beach refineries by private pipeline rather than regulated common carriers.

California crude oil also tends to be very heavy and of low quality. The result of all of these factors has been a level of oil prices below world market levels. The result of the reliance on private pipelines for the marketing of regional production, has been a two-tiered price structure with imported crude at the high end and domestic postings at the low end. This occurs because of the leverage the producer/pipeline owners have over independents with only a trucking alternative. (Purvin & Gertz).

This institutional environment depressing California crude oil prices was further impacted by the opening of the TAPS. The West

Coast market was flooded by the surge in production from Alaska. As ANS began to back foreign sour crudes out of the West Coast, a West Coast ANS discount off of Gulf Coast ANS became evident. (Figure One).

Figure 1. U.S. West Coast Crude Oil Prices (1973-1990)



The size of the discount became a very major source of dispute for both the tax man (both the State of Alaska and the Internal Revenue Service) and also the California independent producers. Elementary economic theory suggested that since ANS could not be exported, the price of oil on the West coast should be the price at the most distant market the Gulf Coast less the incremental transportation cost.

This theory was pursued by ARCO in pricing crude oil booked into its own refineries. This reduced the company's tax liability and gave them a cost advantage over their competitors allowing an aggressive pursuit of market share on the West Coast.

The alternate price theory followed by BP was that of a price leading oligopolist. BP controlled the incremental barrels of oil which met West Coast oil demand. They used this market position to negotiate sale of ANS barrels on the West Coast in exchange for delivery of barrels to their Gulf Coast and mid Continent refineries. The resulting oil price was less than the monopoly price but greater than the perfectly competitive price. (Logsdon, 1985).

ANS EXPORT BAN AND WEST COAST OIL PRICE EQUILIBRIUM

At the heart of the dispute over the "correct" value for crude oil in California during the 1980's and the part ANS played in determining value was the influence of two major institutional handicaps placed on the crude oil market--the ANS export ban, and the Jones Act. These two barriers have penalized oil producers on the U.S. West Coast directly by forcing the West Coast market to a Gulf Coast pricing basis rather than the much closer Pacific Rim market with the resulting lower oil price and at the same time reducing resource value in Alaska by requiring the use of expensive Jones Act tankers.

This double whammy on production profitability has supply side impacts which have additional negative impacts on the regional and national economy. Clearly the export ban combined with the Jones Act continues to hobble the economic potential of not only Alaska but of the entire U.S. West Coast.

In the remainder of this paper I will attempt to quantify the impact in foregone revenue and barrels of oil that the ANS export ban and the Jones Act have resulted in. The model used to estimate the equilibrium oil price on the US West Coast leaves in place the Jones Act but allows the export of ANS in foreign tankers.

A SIMPLE WORLD PRICE EQUILIBRIUM MODEL APPLIED TO ANS

The value and production effect of the export ban is a function both of the deadweight loss due to imposition of additional transportation costs on ANS marketing and the pecuniary effect the ban has on ANS West Coast price.

Other studies have simply assumed that if the export ban were lifted West Coast oil prices would reach world levels. In this section several alternative theoretical links to the World market are explored and tested with empirical data.

The model assumes that world oil prices (specifically sour crude oil) are established by the supply of and demand for Middle Eastern crude oil. All other world oil producers are assumed to be price takers and prices will be determined primarily by relative transportation costs to alternative world markets. Oil will flow to those markets which maximize the wellhead value of production subject to market competition which insures that in equilibrium the wellhead value from all sales is the same.

This model as applied to ANS uses the Pacific Rim as the basing point for West Coast oil prices in the event that exports were allowed. Another alternative would be to use the landed cost of Middle Eastern crude oil as the basis for determining West Coast oil prices. This alternative is untidy given the fact that there

continues to be excess supply on the West Coast. The final alternative is the Gulf Coast netback approach first suggested in 1982 by ARCO.

The relevant oil price and transportation parameters to calculate these alternative theoretical West Coast prices are contained in Table 1 and are taken from *Platt's Oilgram Price Report*, the *1992 World Scale* for international tankers and the *American Tanker Rate Schedule*. Tanker rates are based on use of VLCC's and adjusted by *USFRA* for the U.S. fleet and the *Tanker Charter Record* spot index for the international fleet. It is further assumed that Dubai and ANS are directly comparable crude oils.

Table 1. Oil Prices and Transportation Costs Spring 1992

	Jan	Mar	May
Oil Price (Dubai)	$15.20/bbl	$15.70/bbl	$17.50/bbl
Transportation Costs			
Valdez to U.S. Gulf (Jones)	$2.97/bbl	$2.99/bbl	$3.12/bbl
Valdez to U.S. West (Jones)	0.72	0.66	0.76
Valdez to U.S. Gulf (Int'l)	1.45	1.27	1.35
Valdez to U.S. West (Int'l)	0.26	0.19	0.22
Valdez to Far East	0.42	0.31	0.36
Middle East to Far East	0.70	0.52	0.60
Middle East to U.S. Gulf	1.09	0.81	0.93
Middle East to U.S. West	1.10	0.82	0.94

Source: USFRA, Worldscale, Tanker Charter Record

The following table compares alternative theoretical West Coast oil prices based on the information in Table 1 with the actual ANS spot price for the sample months.

Table 2. Alternative West Coast ANS Prices

	Jan	Mar	May
U.S. Gulf Base (Jones)	$14.04/bbl	$14.18/bbl	$16.07/bbl
U.S. Gulf Base (Int'l)	15.10	15.43	17.30
Pacific Rim Base (Jones)	16.20	16.57	18.50
Pacific Rim Base (Int'l)	15.74	16.10	17.96
Landed Cost West	16.30	16.52	18.44
ANS West Spot	14.92	15.50	18.03

Note: (Jones) assumes Jones Act Tankers on the Valdez to Lower 48 route. (Int'l) assumes International Tankers on all ANS routes

There are three major conclusions suggested by these alternative specifications of ANS West Coast price.

1. The pure Gulf based price is of interest when the export ban is in place since ANS surplus to West Coast needs is disposed of in this market. The average difference in price of $1.18/bbl between using international and domestic tankers in the ANS trade is a direct estimate of the theoretical depressing effect on ANS West Coast price of the Jones Act.

2. The West Coast landed cost of Middle Eastern crude oil will exceed a Pacific Rim based ANS West Coast price if the net transportation cost difference between Valdez to West or Far East destinations is less than the incremental cost of shipping Middle East Crude oil to a West Coast rather than Far East destination.

Clearly this is the case if international tankers are used on all routes. However use of Jones act tankers results in a Pacific Rim based price higher than the landed cost of Middle Eastern crude in two of the three months sampled (although not by much).

Obviously in this case no ANS would be sold domestically since the Valdez netback from the Pacific Rim is higher than the netback of a West Coast landed Middle East crude, however since the break price is so close on the West Coast, it could be assumed in this example that competition between ANS and Dubai for Far East delivery would eventually establish a price at the U.S. roughly equal to an the ANS Far East netback price plus transportation cost to the West Coast.

Generally speaking then, using a Pacific Rim basing point price model is the preferred way of linking ANS West Coast pricing to the world market as long as there is surplus ANS on the West Coast. Logically no ANS would be sold at the U.S. Gulf Coast if exporting were allowed.

3. Comparing the Pacific Rim based ANS West Coast prices with actual spot ANS illustrates two things. First that the market for ANS on the West Coast continues to support some form of oligopolistic behavior and second that the export ban continues to depress West Coast prices by an average of roughly $1.00/bbl.

REVENUE IMPACTS OF THE ANS EXPORT BAN

As stated previously, the export ban directly impacts the value of production in Alaska by reducing the market value of the crude oil sold on the U.S. West Coast, and by increasing the costs of shipping the oil to market. Derivatively, since ANS is the incremental barrel of crude oil coming into the West Coast, the value of California production is also depressed.

This direct revenue impact is estimated using a Pacific Rim basing point for price and assumes that Jones Act tankers are used for domestic sales of ANS while international tankers are used to export ANS. The estimates are based on relevant prices and costs effective averaged over January, March, and May 1992. ANS production is assumed to be 1.75 million bbl/day and California production is assumed to be 0.80 million bbl/day. It is assumed that 0.20 million bbl/day of ANS production is currently being sold at the U.S. Gulf.

Table 3. Oil Production Revenue Impact of the ANS Export Ban (Millions $/Yr)

	State	Producers	Federal	Total
Alaska Impact				
Transport Savings	47.6	90.5	46.6	184.7
Sales Price	136.9	260.6	134.3	531.8
Total	184.5	351.1	180.9	716.5
California Impact	13.4	188.1	96.9	298.4
Total Impact	197.9	539.3	277.8	1014.9

The export ban lowers the value of annual production in Alaska and California by approximately $1.0 billion/year or about $1.10/bbl. If this estimate were applied to all ANS and California production since 1977, the ban has artificially reduced the value of production in both states by over $12.5 billion. This is probably a very conservative estimate based on the historic spread between world crude oil prices and ANS West Coast price outlined previously in Figure 1.

Although basic geological good fortune and increased environmental costs have probably a bigger impact on the long term supply function, clearly this kind of a depressing effect on resource value has been a contributing factor in the declining level of production from these two regions. Certainly the inefficiency of forcing ANS to be moved to a more distant market puts the global economy even further away from the production possibility frontier.

In terms of national cost and benefits, some of this billion dollar a year loss is offset by revenues earned by the domestic tanker industry, and either regional petroleum product consumers or regional petroleum refiners. It might even be argued that since petroleum product prices are linked to the global market i.e. they can be freely traded, that a large amount of the implied refiner margin has gone to compliance with stringent environmental regulations in the California market.

IMPACT ON PRODUCTION OF THE EXPORT BAN

Tussing et. al., in 1987 estimated that the export ban would increase the wellhead price of ANS oil by up to $4/bbl and that this increase would increase production by 460 million bbls. in Alaska and 280 million bbls. in California over the period 1987--2000. The estimates made in this paper are considerably lower primarily because the amount of ANS going to the Gulf Coast market is lower currently due to the decline in ANS production and the continued growth in West Coast crude oil demand.

At current prices of roughly between $17.00/bbl and $19.00/bbl, an increment of $1.00/bbl would add roughly 60 million bbls of California production and 110 million bbls of Alaskan production between 1992 and 2000 assuming production price elasticities of 0.5 (Tussing, et. al.) and 0.3 respectively (State of Alaska).

CONCLUSIONS

The ANS Export Ban has remained in effect over the life of production from North America's largest oil field. The economic evidence has always indicated that the ban is inefficient and results in economic waste and a reduction in the overall level of global economic activity.

Given the current global market structure, the ban continues to depress Alaskan and California crude oil prices by nearly $1.00/bbl. At the same time the approximately 200,000 bbls/day of ANS forced into Eastern U.S. markets incurs approximately $2.70/bbl more in transportation charges than if it were exported to Pacific Rim countries in international tankers.

Taken together, the effect of deadweight transportation cost loss and reduced crude oil price reduces annual producer profit by roughly $540 million, annual state revenues in Alaska and California by $200 million, and annual Federal revenues by $275 million. The higher wellhead values resulting from lifting of the ban could result in another 750 million bbls of production in Alaska and California.

At some point in the near future ANS will no longer be in surplus on the West Coast. At that time the price should rise to world levels. However it is possible that if the export ban is still in effect at that time that the reduction in potential buyers for ANS in a market as concentrated as the U.S. West Coast may continue to result in a West Coast discount relative to global prices.