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Richard C. Campbell, President
BP Exploration (Alaska) Inc.

Testimony before the World Trade & State/Federal Relations Committee
Chair: Representative Ramona Barnes

April 23, 1999

Madam Chair and members of the World Trade and State-Federal Relations Committee:

For the record, my name is Richard Campbell, and I am the president of BP Exploration (Alaska), Inc. I am grateful for this opportunity to speak with you about the historic change occurring with BP Amoco and ARCO and within the Alaskan oil industry.

The agreement for BP Amoco to purchase ARCO starts a journey toward a new future for Alaska. Two great Alaskan companies have taken the first steps toward becoming a single, more competitive Alaskan company that is positioned for the challenges and the opportunities of the 21st Century.

I know that our plans have come as a shock to many Alaskans, and they are causing great concerns because of the central role both ARCO and BP have played in Alaska's economic and social fabric for more than 3 decades.

I want to assure you that the vital economic and social role our 2 companies play separately will continue when we combine into one. I also want to emphasize that this deal is critical to ensuring the long-term health and competitiveness of the industry that is the foundation of Alaska's economy.

Both companies believe this will be good for Alaska, good for its communities and people, good for investment and good for the future of our industry in Alaska.

It will enable us to maximize oil and gas recovery on the North Slope.

It will make us more efficient.

It will make us more competitive.

It will enhance our ability to invest in Alaska and that of Alaska to compete for investments in a low-price environment.

We are hopeful that the government approval process can be completed in 6 to 9 months, and we know this will not be an easy period for anybody ... for our employees or for the state.

I promise that I and the BP team will do everything we can to move the process along and to minimize the uncertainty for everyone concerned. And I promise that the decisions we make as we shape our new organization and chart its course will be made in a fair, equitable and collaborative manner.

The main question on almost every public servant's mind is, "What does it mean to the State of Alaska and its citizens?" I genuinely wish I could answer that question specifically

for you here today, but I can't. I can tell you the principles on which our decisions will be based, and our commitments to you and all Alaskans as we move forward.

BP Amoco is about to spend more than \$26 billion to acquire ARCO, in large part to enhance the competitiveness of Alaskan investments in our global exploration and production portfolio. This is a tremendous expression of our confidence in Alaska's potential and its future.

As further evidence, we will invest \$5 billion on the North Slope over the next 5 years – an increase over the combined Alaskan investments of BP and ARCO in the past 5 years.

This will mean ongoing business opportunities for Alaskan companies. Indeed, we will continue our efforts and programs designed to expand the role of Alaskans in all of our activities, and we will have a bias for Alaskans in our training, hiring and contracting.

Efficiencies we gain by combining the strengths of BP Amoco and ARCO will make Alaska more competitive in a sustained low-price environment such as the one we've experienced for the past year.

ARCO and BP Amoco are taking our destinies in our own hands in order to make our Alaskan investment opportunities attractive in any business environment. In this context, we are not asking for a review of the tax structure.

We will continue to work cooperatively and collaboratively with all levels of government in Alaska.

We will honor ARCO's commitments to build the new "Millennium Class" double-hull tankers for our Alaska trade, where BP already is using three double-hull tankers and six double-bottom tankers in its 11-ship chartered fleet. And we will comply with OPA '90.

We will continue the work of the LNG sponsor group. We will consolidate our worldwide gas technology activities in Alaska, and we will build a gas-to-liquids pilot plant on the North Slope. In doing this, we will leave no stone unturned in our efforts to commercialize North Slope gas, and by combining the strengths of our 2 companies, we will take a quantum leap forward toward achieving that goal.

We will continue to be actively involved in state and federal lease sales, including the upcoming NPRA sale, and we will continue to pursue exploration and development opportunities in Alaska. Since the combined onshore exploration holdings of both companies will exceed that allowed, we are prepared to reduce the amount to comply with state limits if that is what the State wishes.

We will do everything we can to make spare capacity in North Slope facilities and infrastructure available to others in order to encourage additional development on the Slope.

We will increase by 50% our financial support of community organizations in Alaska from the current combined level of BP Amoco and ARCO ... from \$4 million a year to \$6 million. As important, we will continue to encourage our managers, staff and business partners to participate in and support community activities and organizations.

And we will honor all current agreements with ARCO's contractors and suppliers and treat all of our business partners with dignity and respect. The reasons are simple. Since we believe a robust and competitive local contractor market is in everyone's interest.

I know there is a great deal of concern about our "bigness" and competitiveness issues within Alaska. About the influence and power we could have when this deal is approved.

Ladies and gentlemen, we have been responsible and responsive corporate citizens of Alaska for 40 years. That won't change. Indeed, as the importance of Alaska grows in BP Amoco's global portfolio, so does our sense of responsibility to Alaskans.

Our "bigness" – the experience, the skills, the financial resources and the stability we bring – will be Alaska's competitive advantage, not a competitive threat. We're not competing against Alaska for shares of a shrinking pie; we're partnering with Alaska to compete together for a larger slice of a global investment pie. We will be an even more powerful ally of Alaska in this quest.

Finally, I want you to know that our new combined organization will maintain the same high standards for environmental, safety and social performance that our 2 companies have maintained separately.

Representative Barnes, thank you for this opportunity to address your committee.

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Tanker players change

Alaska Tanker Co. enters the market

By DAVID WHITNEY
Daily News Washington Bureau

WASHINGTON — Over the next several months, tanker ships carrying crude oil from Alaska's North Slope will begin taking on a different appearance.

The stacks toward the rear of the vessels will be painted blue, and the letters ATC will be emblazoned in gold.

That may be the most visible public sign of one

of the most significant changes in the Alaska crude transportation business since Prudhoe Bay pumped its first barrel of oil nearly 22 years ago.

With little fanfare, BP

Amoco and two East Coast companies from which it charters tankers for the Alaska trade announced last summer that they were creating a joint venture called Alaska Tanker Co.

The Federal Maritime Administration approved the new company last month. About the same time, the company opened its headquarters building in Beaverton, Ore., where some 40 employees are finishing the paperwork to begin accepting ships from its two majority partners, Overseas Shipholding Group and KeyStone Shipping Co.

By summer, the fledgling company will be the largest operator of

tanker ships carrying crude oil between U.S. ports, with about 650 employees.

The company will have a five-person office in Valdez, where Alaska oil is loaded onto tankers, and will station port captains to oversee operations in Puget Sound and San Francisco Bay.

By the end of the year, ATC's 11-ship fleet is likely to have swelled to 18. The tanker company's fast-expanding minority partner — BP — said this month that it would transfer to ATC the seven tankers owned by Arco if it completes its \$26 billion takeover of the Los Angeles-based oil company.

The merger would concentrate more than 70 percent of the North Slope's production in BP's hands. But under the Jones Act governing the U.S. maritime industry, foreign-owned companies are prohibited from operating ships between U.S. ports. That law makes it impossible for the London-based oil giant to operate its own fleet of tankers in the Alaska trade.

The new tanker company is structured to give BP a strong role in operation of the tanker fleet without violating the Jones Act. Overseas and KeyStone each own 37.5 percent of Alaska Tanker Co.

BP owns 25 percent.

BP's heavy hand in the new company is evident in the selection of ATC's president and chief executive, Doug Webb.

Webb is a former vice president of BP-dominated Alyeska Pipeline Service Co., the Anchorage-based company that runs the 800-mile trans-Alaska oil pipeline. More re-

Please see Page F-4, TANKERS

TANKERS: BP major player in new company

Continued from Page F-1

cently he headed BP's oil operations in Bogota, Colombia.

According to Webb, operational efficiencies are what's behind ATC.

"We are going to be in a position to have a consistent high level of performance," Webb said. "For example, rather than having a number of different plan holders for various oil spill (cleanup) plans for these ships, ATC will be the plan holder in Alaska, Washington and California where we deliver oil.

"We can bring a consistency to the drills we have, a consistency to the kind of response we deliver," he said.

"We will be a fairly visible company in the North Slope crude oil market. It won't be a half a dozen different players any more. There will be just a few, and we'll be one of the major ones."

Overseas Shipholding, a publicly-traded corporation that operates a fleet of about 50 tankers around the world, is transferring five of its ships to ATC under long-term charters. According to the company's most recent filings with the Securities and Exchange Commission, those five ships generated \$98.6 million in revenue last year.

Keystone, a family-owned business that has its headquarters in Philadelphia, is transferring four ships under a similar arrangement. Two other ships now under charter to BP, owned by Marine Transport Lines, also are expected to be transferred to ATC's control this summer, Webb said.

The 600 or so mariners who operate the tankers will be shifted in the coming weeks to the ATC payroll.

Bob Johnston, executive vice president of New York-based Overseas Shipholding, said that while ATC's primary client will continue to be

BP, the new tanker company will be looking for additional business.

"With ATC we will be able to attract new customers based on the environmental record it has established in the Alaska trade," Johnston said.

Webb said that it remains unclear what will happen with Arco's seven-tanker fleet after BP absorbs the oil company. BP said early this month that the ships will be transferred to ATC but gave no other details.

The Arco ships were built specially for the Alaska trade. To get around the Jones Act restrictions on BP owning the tankers, the merger could set the precedent for the new company owning as well as operating ships. And that could have further implications in coming years.

In 1990, in the aftermath of the Exxon Valdez oil spill, Congress passed the Oil Pollution Act that eventually will require all tank ships to have more protective double hulls to trap oil from leaking after an accident.

Arco already has a new double-hulled tanker on order, and that vessel is likely to become the first new ship in ATC's fleet.

Webb said that ATC will have to face replacing other ships in its aging fleet at an accelerating pace after 2004 and that it's possible the new company will build its own ships rather than charter them.

"We can't build tankers overnight," Webb said. "Lots of things have to happen first, and we'll just have to see where we are. The Arco merger could impact us. We might be in a position to build our own ships but there are lots of options."

Reporter David Whitney can be reached at dwhitney@edn.com.



Millennium Class Highlights

- ARCO Marine, Inc., a wholly-owned subsidiary of Atlantic Richfield Company, operates the corporation's oil tanker fleet.
- ARCO Marine has contracted with Avondale Industries in New Orleans, LA to build the next generation of double-hulled tankers for the shipment of crude oil.
- The Millennium Class name was chosen because it marks the next generation in world class crude tankers, the first of which will be dedicated in February 2000. Construction by Avondale is scheduled to begin in December 1997.
- The Millennium Class tanker is designed primarily for the 1200 mile trip between Valdez, Alaska and Cherry Point, Washington.
- The Millennium Class tanker design is based on proven technologies, developed in partnership with some of the world's leading naval architecture and marine engineering firms, including John J. McMullen Associates (JJMA), MCA Engineers, Inc., SSPA Maritime Consulting AB, Herbert Engineering Company, Glosten Associates, Inc., Anna Knutsen, and Astilleros Espanoles, S.A.
- The new tanker, at 125,000 deadweight tons, will be the first tanker specifically designed for the carriage of crude oil, built in the U.S. following the Oil Pollution Act of 1990 (OPA 90) which mandates the phasing-out of single-hulled tankers.
- This new class of tankers meets or exceeds the requirements of the 1990 Oil Pollution Act and regulations of the International Maritime Organization.
- In addition to the double hulls, the ship's design incorporates fully independent engine rooms, with redundant propulsion and twin steering systems, in addition to a separate bow thruster.
- The two independent engine rooms will be separated by a fireproof, water-tight bulkhead.
- The new ships will be equipped with the latest navigational tools, including: Electronic Chart Display and Information System (ECDIS), three automatic plotting collision avoidance radars, and Global Marine Distress and Safety System (GMDSS).
- The Millennium Class tanker is designed to have excellent structural performance for 30 years.
- ARCO Marine owns and operates one of the largest oil tanker fleets under U.S. flag. As of July 1997, ARCO Marine operates a fleet of ten vessels with a total capacity of 9.5 million barrels.

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- Eight of the ARCO Marine ships carry crude oil; two carry petroleum product; all serve the West Coast of the United States.
- In August of 1977, an ARCO ship, the S.S. ARCO Juneau, loaded the very first barrel of Alaska North Slope crude to come down the pipeline. In May 1996, the Juneau was honored as the first vessel to complete 500 voyages to Valdez and safely loading at the Valdez Marine Terminal.
- As of July 1997, ARCO Marine vessels have delivered 3.15 billion barrels of oil on over 3,500 voyages since the Alaska Pipeline opened in August of 1977.
- ARCO Marine employs some 500 dedicated and highly-trained sea-going and shoreside personnel.
- Each member of the ARCO Marine bridge crew - whether helmsman, lookout, or deck officer, is trained in team skills and crisis response.
- ARCO Marine has fully integrated tug boat masters and harbor pilots into its bridge team management training program.
- ARCO Marine signed a precedent-setting contract with Foss Maritime for the provision of 7,600 horsepower tractor tugs to escort our ships through Puget Sound.
- Founded in 1938, Avondale Industries is headquartered in New Orleans, and has over 58 years of experience in design and construction of specialized ships and marine products.
- Avondale currently employs over 5,300 employees. The ARCO Marine contract is expected to add 1,000 new jobs. At the highpoint of the project 2,200 individuals will be working on these ships alone.
- Avondale has the distinction of being the only American shipyard to have constructed all types of marine vessels including: barges, tankers, LASH vessels, and Navy auxiliaries.
- Avondale is a foremost builder of ships for the U.S. Navy and the Military Sealift Command having successfully delivered 33 ships to the U.S. Navy during the past ten years.
- Avondale facility totals 268 acres and contains three outfitting docks totaling over 6,000 linear feet. Avondale has an upper shipbuilding area capable of constructing ships up to 250,000 DWT or three conventional sized ships concurrently. The lower shipbuilding area is capable of building five Panamax vessels in excess of 1,000 feet long concurrently.

ARCO Marine, Inc. 
Subsidiary of Atlantic Richfield Company