

ALASKA LEGISLATURE

1722

HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998

1 ARTICLE XXII

2 RECORDS

3 22.1 Preservation of Records. Mapco shall maintain and preserve all books,
4 accounts, and records that relate to or arise from performance of this Agreement for six years from
5 the date of the transaction or date of the latest adjustment relating to the transaction, including
6 transactions for purchase or sale of Sale Oil and its refined products. Mapco shall also maintain and
7 preserve all books, accounts, and records, in its possession or control, that belong to any third party
8 with whom Mapco contracts for the performance of any part of this Agreement. Mapco and the
9 State shall not be required to retain any records for more than six years from the time of a
10 transaction unless retention of such records is specifically required by applicable law or regulation,
11 or this Agreement. Mapco shall maintain its records within the State or make the records available
12 to the State at Mapco's principal office in the State within thirty Days after written request by the
13 State.

14 22.2 Inspection of Records. Mapco and the State shall each accord to the other
15 and the other's authorized agents, attorneys, and auditors access during reasonable business hours to
16 any and all property, records, books, documents, or indices related to Mapco's or the State's
17 performance under this Agreement and which are under possession or control of the party from
18 which access is sought, so the other party may inspect, photograph and make copies of the property,
19 records, books, documents or indices. The State shall not be required to disclose any information,
20 data, or records that are required by State or federal law or regulation, or by agreement with the
21 person supplying the record, to be held confidential. If information the State obtains from Mapco
22 may be held confidential under State or federal law or regulation, Mapco must request in writing

1 that the State hold the information confidential, and the State shall keep the information confidential
2 to the extent and for the term provided by the applicable law or regulation.

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ARTICLE XXIII

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INTERPRETATION OF TERMS AND CONDITIONS

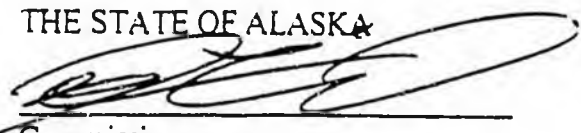
6 23.1 Interpretation of Terms and Conditions. Any disagreement or dispute about
7 the meaning or application of a word, term, or condition in this Agreement shall be decided
8 according to the dispute resolution procedure set forth in this Article. The procedure set forth in this
9 Article shall be initiated by either party providing written notice of the disagreement or dispute to
10 the other party. No later than 60 Days after either party provides written notice, Mapco and the
11 State shall each present any arguments and evidence supporting its view of the disputed term or
12 condition in writing to the Commissioner for consideration. Mapco shall not have the right to civil
13 litigation-type discovery or a civil litigation-type trial with the right to call or cross-examine
14 witnesses unless granted by the Commissioner, after request. Within thirty Days after both parties
15 submit their arguments and evidence, the Commissioner shall issue a finding interpreting the
16 meaning or application of the disputed word, term, or condition, and shall set forth the basis for the
17 conclusions. Mapco agrees to accept findings of the Commissioner under this Article that are
18 reasonable and not arbitrary.

SIGNATURES

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the State:

THE STATE OF ALASKA



Commissioner
Department of Natural Resources

Date: 3/5/98

Mapco Alaska Petroleum Inc.

MAPCO ALASKA PETROLEUM Inc.

By: _____

Its: _____

Date: _____

Mapco Petroleum Inc.

MAPCO PETROLEUM Inc.

By: _____

Its: _____

Date: _____

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SIGNATURES

the State:

THE STATE OF ALASKA

Commissioner
Department of Natural Resources

Date: _____

Mapco Alaska Petroleum Inc.

MAPCO ALASKA PETROLEUM Inc.

By: *Randolph Newcomer* *RJ*

Its: President

Date: 3/5/98

Mapco Petroleum Inc.

MAPCO PETROLEUM Inc.

By: *Randolph Newcomer* *RJ*

Its: Vice-President

Date: 3/5/98

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ACKNOWLEDGMENT

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the 5th day of March, 1998, before me, appeared John T. Shively, the commissioner, Department of Natural Resources, State of Alaska; that John T. Shively executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written.



Mayetta V. Jeffery
Notary Public in and for Alaska
My commission expires: 6-27-99

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ACKNOWLEDGMENT

THIS IS TO CERTIFY that on the 5th day of March, 1998, before me, appeared Randy M. Newcomer of Mapco Alaska Petroleum Inc., Anchorage, Alaska; that Randy M. Newcomer executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written.

Sharon R. Lawrence
Notary Public in and for Oklahoma
My commission expires: 9-18-2001

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ACKNOWLEDGMENT

THIS IS TO CERTIFY that on the 5th day of March, 1998, before me, appeared Randy M. Newcomer of Mapco Petroleum Inc., Tulsa, Oklahoma; that Randy M. Newcomer executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written

Sharon R. Lawrence
Notary Public in and for Oklahoma
My commission expires: 9-18-2001

APPENDIX A

SAMPLE CALCULATIONS OF MAPCO'S INVOICE PRICE

Numbers in these sample calculations of price are illustrative. They do not represent actual values that may have existed in the past or are forecasted for the future.

This appendix illustrates the mechanics of the price calculations and the data sources. Royalty Values, before field cost deductions, for the Prudhoe Bay Unit Lessees are taken from either columns H or I on each Lessee's Monthly Oil Royalty Report Summary. Sample Oil Royalty Report Summaries for the Lisburne Participating Area and the Prudhoe Bay Unit Initial Participating Areas appear in Appendix A, Attachment 1. Volumes are taken from the Production Allocation/Offtake Schedule for the participating areas serviced by the Lisburne Production Center and the Royalty and Taxes Due State of Alaska report for the Prudhoe Bay Unit Initial Participating Areas. See Appendix A, Attachment 2. A sample calculation using the volume and Royalty Value information as originally filed for January 1997 and a hypothetical RIK volume sold to Mapco in February 1997 is shown below. It is recognized that both royalty reporting and operator reporting forms may undergo format changes in the future. Such changes will not effect the mechanics of these calculations

January's Calculated Average Royalty Value:

$$\begin{aligned} &= \$607,508,676.79 / 31,777,362.10 \text{ barrels} \\ &= \$19.11766 \text{ per barrel (See Appendix A, Attachment 3)} \end{aligned}$$

February's production month invoice price for Sale Oil to Mapco (Mapco's Invoice Price)

$$\begin{aligned} &= \text{January's Royalty Value} + \{ \text{January's Royalty Value} \times \\ &\quad \text{Average Fractional Change in the West Coast} \\ &\quad \text{Destination Value Between January and February} \\ &\quad \text{(See Appendix A, Attachment 4)} \} + \$.15 \\ &= \$19.11766 + \{ \$19.11766 \times (-0.1367) \} + \$.15 \\ &= \$19.11766 - \$2.61338 + \$.15 \\ &= \$16.65428 \end{aligned}$$

Under Article 2.1.5, if invoked, the Royalty Value would be calculated using the royalty values and production volumes for only the Prudhoe Bay Unit Initial Participating Areas.

Example 1: Production Month Invoice

Assumptions:

1. Month is March.
2. Sale Oil delivered to Mapco in February = 403,000 barrels.
3. February's production month invoice price as calculated above = \$16.65428.
4. Statement of account, with February's production month invoice, sent to Mapco on March 3.

5. Date February production month invoice payment due to State = March 7 (statement of account date plus three business days).

Method for calculating Mapco's production month invoice payment for February deliveries:

Volume x Mapco's Invoice Price = Production Month Invoice Amount

$$403,000 \text{ barrels} \quad \times \quad \$16.65428 \quad = \quad \$6,711,674.84$$

If payment in full is not received by the State on or before March 7, interest will accrue on the unpaid balance from March 7 through the date payment is received, and a late payment penalty will be assessed.

Note:

The Lessees are required to submit their royalty reports to the State for February's production by the last day in March. For this reason, the State's production month invoice to Mapco for February deliveries will be based on January's Royalty Values as adjusted by the average fractional change in the West Coast destination values of ARCO, BP, and Exxon. This is an interim invoice price and will be adjusted when the State receives more accurate information about the actual quantity and price for Sale Oil delivered to Mapco in that month. The State may adjust the invoice price and/or the actual quantity of Sale Oil and invoice Mapco in the initial adjustment invoice submitted with the following month's (April) statement of account. Subsequent adjustments are likely to follow.

Example 2: Initial Adjustment Invoice

Assumptions:

1. Month is April
2. Sale Oil delivered to Mapco in February = 403,000 barrels
3. February's Royalty Value for the Prudhoe Bay Unit = \$16.09963
4. Adjusted Mapco's invoice price for February = \$16.09963 + \$.15 = \$16.24963
5. Annual interest rate charged member banks for advances by the 12th Federal Reserve District as of January 1 is three percent; and seven percent as of April 1. Annual rate for contract = 11 percent for the first quarter and 12 percent for the second quarter.
6. Date of the statement of account that contains the initial adjustment invoice is April 1.
7. Date initial adjustment invoice payment is due to the State = April 7.

Method for calculating Mapco's initial adjustment invoice amount for February deliveries:

$$\underline{\text{Volume} \times \text{Mapco's Invoice Price} = \text{Initial Adjustment Invoice Amount}}$$

$$403,000 \text{ barrels} \times \$16.24963 \text{ per barrel} = \$6,548,600.89$$

$$\text{Amount previously paid by Mapco for February deliveries (calculated in Example 1)} = \underline{\$6,711,674.84}$$

$$\text{Overpayment for February deliveries} = (\$163,073.95)$$

Number of days between the date the initial adjustment invoice was due on April 7, and the date accrued, March 7 = 31 days. The statutory interest rate is converted to a daily rate for these calculations.

$$\text{Days of interest first quarter} = 24 \text{ days}$$

$$\text{Days of interest second quarter} = 7 \text{ days}$$

$$\text{Interest due first quarter} = (\$163,073.95) \times (11\%/365) \times 24 \text{ days} = (\$1,179.49)$$

$$\text{Interest due second quarter} = (-\$163,073.95 - 1,179.49) \times (12\%/365) \times 7 \text{ days} = \underline{(\$378.01)}$$

$$\text{Total interest due Mapco} = (\$1,557.50)$$

$$\text{Credit due Mapco against statement of account amount dated April 1} = (\$164,631.45)$$

Example 3: Subsequent Adjustment Invoice

This adjustment is assumed to occur on October 1, after BP's six month true up of transportation costs, a reopener for one of the Royalty Settlement Agreements, or for some other reason.

Assumptions:

1. Month is October.
2. Sale Oil delivered to Mapco in February = 403,000 barrels
3. February's Royalty Value for the Prudhoe Bay Unit = \$16.36706
4. Adjusted Mapco price for February = \$16.36706 + \$.15 = \$16.51706
5. Annual interest rate charged member banks for advances by the 12th Federal Reserve District as of January 1 is three percent; as of April 1, July 1, and October 1 is seven percent. Annual rate for contract = 11 percent for the first quarter and 12 percent for the second, third, and fourth quarters.
6. Date of statement of account that contains the subsequent adjustment invoice is October 1.
7. Date subsequent adjustment invoice payment is due to the State = November 6.

Method for calculating Mapco's subsequent adjustment invoice amount for February deliveries:

Volume x Mapco's Invoice Price = Subsequent Adjustment Invoice Amount

403,000 barrels x \$16.51706 per barrel = \$6,656,375.18

Amount previously paid by Mapco for February deliveries
(calculated in Example 2) = \$6,548,600.89

Underpayment for February deliveries \$107,774.29

Number of days between the date the subsequent adjustment invoice payment was due on November 6 and the date accrued, March 7 = 244 days. The statutory interest rate is converted to a daily rate for these calculations.

Days of interest in the first quarter (March 7 through Mar 31)	= 24
Days of interest in the second quarter (April 1 through June 30)	= 91
Days of interest in third quarter (July 1 through September 30)	= 92
Days of interest in fourth quarter (October 1 through November 6)	= 37
Interest due for first quarter = \$107,774.29 x (11%/365) x 24 days	= \$779.52
Interest due for second quarter = (\$107,774.29 + 779.52) x 12%/365 x 91 days	= \$3,247.69
Interest due for third quarter = (\$107,774.29 + \$779.52 + \$3,247.69) x 12%/365 x 92 days	= \$3,381.61
Interest due for fourth quarter = (107,774.29 + \$779.52 + \$3,247.69 + \$3,381.61) x 12%/365 x 7 days	= <u>\$1,401.13</u>
Total interest due to the State on November 6	= \$8,809.95
Subsequent adjustment invoice amount due the State on November 6	= \$116,584.24

If payment in full is not received by the State on or before November 6, additional interest will accrue from November 6 through the date payment is received, and a late payment penalty will be assessed.

OL ROY RPT SUM
 REVISED 1/86
 DODD 3-3-88
 DNR 18-0008

STATE OF ALASKA
 DEPARTMENT OF NATURAL RESOURCES
 OIL OR GAS ROYALTY REPORT SUMMARY

PAGE 1
 UNIT USHINNAK PARTICIPATING AREA
 FIELD
 ZONE
 LEASE

COMPANY NAME ARCO Alaska, Inc.
 ADDRESS P.O. Box 100389
 CITY, STATE, ZIP Anchorage, AK 99516

REPORT FORM NO. OF Jan 1997
 REVISION NUMBER
 DATE OF REVISION

Prod. or Distrib. An	Grass well or Lease Production (Bbls) or (MCF)	Working Interest Ownership %	(a) x (b) (Bbls) or (MCF)	Royalty Rate (%)	(c) x (d) (Bbls) or (MCF)	Royalty in Kind (Bbls) or (MCF)	Royalty in Value (c) - (f) (Bbls) or (MCF)	Royalty Value \$ per Bbl or MCF	Field Costs per Bbl or MCF	(h) - (i) Reported Royalty per Bbl or MCF	(g) - (j) Royalty in Value Dollars
CRUDE	381,282.00	40.00000%	152,512.80	12.50000%	19,064.10	10,415.07	\$ 549.03	\$19,300.00	\$0.870	\$18,630.00	\$181,331.43
RECONDENSED	830.00	40.00000%	332.00	12.50000%	48.50	25.40	21.10	\$19,880.00	\$0.870	\$19,010.00	\$401.11
TOTALS	382,112		152,844.80		19,112.60	10,440.47	\$ 670.13				\$181,732.54

*WEIGHTED AVERAGE VALUE

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED William J. Wilson
 TITLE Authorized Representative EMPLOYEE William J. Wilson

PHONE NO. (907) 282-4983

DATE 2/22/97

GAS ROYALTY: ATTACH FORM 10-422
 OIL ROYALTY: ATTACH FORM 10-605
 OIL AND/OR GAS ROYALTY: VERIFICATION OF WHERE TRANSFER AMOUNTS ON A COPY OF THE CHECK MADE IN PAYMENT OF ITEM (g) MUST BE ATTACHED

(03) COIP: \$0.00
 (04) Less field costs for fill: (\$9,082.21)
 Less/Plus Costs for Fill: \$0.00
 (05) Revisions (adjust reconciliations or amended returns): \$0.00
 (06) Amount Due: \$152,449.33

Made With Applicable Attachments To: State of Alaska
 Department of Natural Resources
 Division of Oil and Gas
 Royalty Accounting Section
 P.O. Box 7034
 Anchorage, Alaska 99510 7034

STATE OF ALASKA
 DEPT. OF NATURAL RESOURCES
 DIVISION OF OIL AND GAS
 REVENUE ADMINISTRATION SECTION
 MAIL "C" BOX, SUITE 1350
 HEIDELBERG, AK 99503-8948

AGREEMENT: 04
 ROYALTY BASIS: BP EXPLORATION (ALASKA)
 O.G. NO. 286631
 ANCHORAGE, AK 99519-6918

FIELD, POOL OR LEASE: LISIURUM FIELD
 PRODUCTION MONTH: JANUARY 1997
 FILING DATE: 02/20/97
 PAGE: 1

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
PROD TYPE	GROUP UNIT OR LEASE PRODUCTION (BOBLS)	ROYSING INTEREST (%)	(A) X (B) 1-BOBLS	ROYALTY BASE	(C) X (D) (BOBLS)	ROYALTY IN-VALUE (BOBLS)	(E) - (F) ROYALTY IN-VALUE (BOBLS)	ROYALTY VALUE \$/BOBLS	FIELD COSTS \$/BOBLS	IN-OPS ROYALTY \$/BOBLS	(G) X (J) O.G. IN IN-VALUE DOLLARS	
WELL	20,132.00	20.000000	40,264.00	22,200	3,452.22	101.98	419.24	18.1200	1.0000	37.2200	13,300.01	
WELL	104,202.00	20.000000	20,840.40	12,200	2,132.05	3,143.93	4,324.90	18.1200	0.0100	37.2200	14,507.97	
WELL	900.00	20.000000	180.00	12,200	22.20	12.70	10.20	18.1200	0.0100	11.2100	101.00	
(1) TOTAL	105,234.00		61,004.40		51,000.00	6,054.21	4,934.42				(2) 66,000.00	

I DECLARE THAT I HAVE EXAMINED THIS REPORT, INCLUDING ACCOMPANYING
 SCHEDULES AND STATEMENTS, AND TO THE BEST OF MY KNOWLEDGE AND
 BELIEF IT IS TRUE, CORRECT, AND COMPLETE.

SIGNATURE: *James A. Wessell*
 TITLE: **Royalty Officer**

DATE: **FEB 28 1997**

OIL STATE: ATTACH FORM 10-003

VERIFICATION OF THIS TRANSFER SHOULD BE A COPY OF THE CHECK MADE IN
 PAYMENT OF STATE (S) MUST BE ATTACHED. MAIL APPROPRIATE ATTACHMENTS
 TO DEPARTMENT OF NATURAL RESOURCES AT ABOVE ADDRESS.

(3) TOPPING SLAINT	10	0.00
(4) LOSS FIELD COSTS PER OIL PROCESSING PER RES-MBL	10	-4,501.00
(5) PROVISIONS (ATTACH APPLICABLE ORDERS OR RECONCILIATION)	10	0.00
(6) AMOUNT DUE (S)	10	88,736.04

20,736.04

EX-BIT A - Attachment 2, page 2

or 881

Page 1 of 1
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 10000

STATE OF ALASKA
 THE BOARD OF COMMISSIONERS
 STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES

Oil Royalty Trust
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 10110
 10000

ROYALTY TO ALASKA
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WIGHTED AVERAGE

10000

RECORDED BY
 J. J. JONES
 STATE ROYALTY TRUST DIVISION
 10000

10000

OIL ROY RPT SUM
 REVISED 1/88
 DOAG # 3-88
 DNR 18-4008

STATE OF ALASKA
 DEPARTMENT OF NATURAL RESOURCES
 OIL OR GAS ROYALTY REPORT SUMMARY

PAGE 1
 UNIT PIA/DIOE BAY UNIT
 FIELD
 ZONE
 LEASE

COMPANY NAME ARCO Alaska, Inc.
 ADDRESS P.O. Box 180388
 CITY, STATE, ZIP Anchorage, AK 99518

REPORT FOR MONTH OF Jan 1997
 REVISION NUMBER
 DATE OF REVISION

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Product Description	Gross unit or Lease Production (Bois) or (MCF)	Working Interest Ownership %	(a) x (b) (Bois) or (MCF)	Royalty Rate (%)	(c) x (d) (Bois) or (MCF)	Royalty by Kind (Bois) or (MCF)	Royalty in Value (e) x (f) (Bois) or (MCF)	Royalty Value \$ per Bbl or MCF	Field Costs per Bbl or MCF	(h) - (i) Separated Royalty per Bbl or MCF	(j) x (k) Royalty in Value Dollars
CRUDE	23,202,600.00	28.40221%	6,125,872.80	12.50000%	765,746.60	415,604.28	349,942.32	\$19.88000	\$0.870	\$18.01000	\$6,652,403.50
(II) TOTAL	23,202,600		6,125,872.80		765,746.60	415,604.28	349,942.32				\$6,652,403.50

* WEIGHTED AVERAGE VALUE

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

SIGNED Marilyn J. Watson

TITLE Authorized Representative TYPE/D NAME Barbara J. Watson

PHONE NO. (907) 251-4965

DATE 2/2/97

GAS ROYALTY: ATTACH FORM 10-422
 OIL ROYALTY: ATTACH FORM 10-408
 OIL AND/OR GAS ROYALTY: VERIFICATION OF WIRE TRANSFER AMOUNTS ON A COPY OF THE CHECK MADE IN PAYMENT OF (ITEM p) MUST BE ATTACHED.

(03) OOTP \$3,196.51
 (04) Less field costs for RIK (\$361,749.72)
 Lease/Split Costs for RIK \$0.00
 (05) Revisions (attach reconciliations or amended returns) \$0.00
 (06) Amount Due \$6,293,850.29

Mailed With Applicable Attachments To State of Alaska
 Department of Natural Resources
 Division of Oil and Gas
 Royalty Accounting Section
 P.O. Box 7034
 Anchorage, Alaska 99510 7034

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01/13/97
10,038,885.40

STATE OF ALASKA
ROYALTY REPORT SUMMARY

AMENDMENT: 06
ROYALTY PAYER: BP EXPLORATION (ALASKA)
P.O. BOX 198617
MCCLURG, AR 95510-0619

STATE OF ALASKA
DEPT. OF NATURAL RESOURCES
DIVISION OF OIL AND GAS
ROYALTY ACCOUNTING SECTION
3401 "C" STREET, SUITE 1300
MCCLURG, AR 95510-0610

FIELD: POOL OR LEASE, BARROW PAY ONLY
PRODUCTION MONTH: JANUARY 1997
PERIOD DATE: 01/01/97

PROD TYPE	(A) GROSS OIL PRODUCTION (BOBBL)	(B) OILING EFFICIENCY (%)	(C) (1) X (B) (BOBBL)	(D) ROYALTY RATE	(E) ROYALTY AMOUNT (DOLLARS)	(F) ROYALTY IN-VALUE (DOLLARS)	(G) (E) - (F) (DOLLARS)	(H) ROYALTY VALUE (DOLLARS)	(I) FIELD COSTS (DOLLARS)	(J) (H) - (I) (DOLLARS)	(K) (J) ROYALTY IN-VALUE (DOLLARS)
WELLS	2,034,616.00	7.433833	150,848.70	12.500	18,856.09	18,137.00	6,719.09	15,418.00	1,000.00	14,418.00	12,318.00
WELLS	49,190.25	100.000000	49,190.25	12.500	6,148.78	6,148.78	0.000	6,148.78	0.000	6,148.78	6,148.78
WELLS	618,628.00	66.337356	409,948.00	12.500	51,243.50	45,118.50	6,125.00	15,300.00	2,000.00	13,300.00	13,300.00
WELLS	67,668.00	61.349333	41,500.00	12.500	5,187.50	5,187.50	0.000	5,187.50	0.000	5,187.50	5,187.50
TOTAL			9,378,666.00		11,197,456.00	10,038,885.40	1,158,570.60	18,000.00	6,070.00	11,928.00	9,000,000.00
(1) ROYALS			10,107,330.00		600,000.00						10,038,885.40
(2) FIELD PLANT											6,581.33
(3) LESS FIELD COSTS MIN-OIL PROCESSING PASS PER-MOLE											-107,848.33
(4) REVISIONS (INTRA ANNUAL RETURN) N. APPROXIMATE											-10,000.00
(5) AMOUNT OVERPAID											0.00

I DECLARE THAT I HAVE EXAMINED THIS REPORT, INCLUDING ACCOMPANYING EXHIBITS AND ATTACHMENTS, AND TO THE BEST OF MY KNOWLEDGE AND BELIEF IT IS TRUE, CORRECT, AND COMPLETE.

SIGNED: *David S. K... ..*
Royalty Officer

DATE: FEB 28 1997

CELL ROYALTY: ATTACH FORM 10-015

VERIFICATION OF WELLS THROUGH MONITORING ON A COST OF THE CHECK MADE IN SUMMARY OF ITEMS (1) MUST BE ATTACHED. MAIL APPLICABLE ATTACHMENTS TO DIVISION OF NATURAL RESOURCES AT ABOVE ADDRESS.

NOTE: WELLS SOLD TO SOCIAL WELLS: WELLS SOLD TO SOCIAL INCLUDE: WELLS SOLD TO SOCIAL (1.01)

1994 3,018.33
1995 7,502.16
4,486.17

OGA ROY RPT SUM
REVISED (1986)

ESTIMATED PAYMENT
State of Alaska
Department of Natural Resources
Oil and Gas Royalty Report Summary

Unit
Field
Zone
Lease

Prudhoe Bay Unit
Prudhoe Bay
Prudhoe Bay
Prudhoe Bay

Company **Chevron U.S.A.**
Address **P.O. Box J Section 975**
City/State **Concord CA 94524**

Estimated Payment Pursuant
to ANS Royalty Settlement
Agreement Effective 01/01/92

Report for month of January 1997
Revision Number _____
Date of Revision _____

Revisions Included

	(a) Gross Unit or Lease Prod. (Bbls) or (MCF)	(b) Working Interest Ownership (%)	(c) (a) x (b) (Bbls) or (MCF)	(d) Royalty Rate (%)	(e) (c) x (d) (Bbls) or (MCF)	(f) Royalty In-Kind (Bbls) or (MCF)	(g) Royalty In Value (e) - (f) (Bbls) or (MCF)	(h) Royalty Value \$ per Bbl or MCF (See Page 2)	(i) Field Costs per Bbl or MCF (\$)	(j) (h) - (i) Reported Royalty per Bbl or MCF (\$)	(k) (j) x (j) Royalty In Value Dollars
GL	2,038,666	0.6516610%	13,285.2	12.5%	1,660.7	905.1	755.6	\$23,248	(\$1.00)	\$22,248	\$16,810.59
U Exch	864,871	0.1628960%	1,409.00	12.5%	176.1	0	176.1	\$23,248	(\$1.00)	\$22,248	\$3,917.87
Totals	2,903,537		14,694.2	12.5%	1,836.8	905.1	931.7	\$23,248	(1.00)	\$22,248	\$20,728.46

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

- (3) COIP Gravity Adjustment
- (4) Less Field Cost for RIK
- (5) Other (Explain)
- (6) Subtotal (2 thru 5)
- (7) Revisions submitted with original report (list above)
- (8) Total Previous Interest Rptd
- (9) Total Due

Principal	Int	Total
\$0.00		\$0.00
(\$905.10)		(\$905.10)
\$0.00		\$0.00
\$19,823.36	\$0.00	\$19,823.36
\$0.00	\$0.00	\$0.00
\$0.00	\$0.00	\$0.00
\$19,823.36	\$0.00	\$19,823.36

IGNED BY

A. T. Guthrie

TITLE Supervisor

TYPED NAME A. T. Guthrie

PHONE N 518-827-7730

DATE 24-Feb-97 (1.02.47 PM)

Page 0

PC 810

STATE OF ALASKA
OIL ROYALTY REPORT SUMMARY
FIELD IN ALASKA DEPARTMENT OF NATURAL RESOURCES

Page 1 of 3
FIELD: FRANKS BAY
ZONE: FRANKS BAY

PROPERTY ADDRESS: 14500 14th Ave S, Seattle, WA 98148
LESSOR: STATE OF ALASKA
LESSEE: STATE OF ALASKA

UNIT	ACRES	DATE	ROYALTY VALUE	ROYALTY VALUE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR	ROYALTY VALUE PER ACRE PER YEAR PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE PER ACRE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE PER ACRE PER ACRE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE PER ACRE PER ACRE PER ACRE PER ACRE
1	100	1/1/80	10000	100	100	100	100	100	100	100	100
TOTALS											

WEIGHTED AVERAGE

I have reviewed this report, including all supporting documents, and on the basis of my knowledge and belief as to the accuracy and completeness of the information contained herein, I hereby certify that the information is true and correct.

DATE: 1/1/80
BY: [Signature]
TITLE: STATE ROYALTY UNIT UNIT MANAGER
OFFICE: DEPARTMENT OF NATURAL RESOURCES
ADDRESS: 14500 14th Ave S, Seattle, WA 98148

UNIT	ACRES	DATE	ROYALTY VALUE	ROYALTY VALUE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR	ROYALTY VALUE PER ACRE PER YEAR PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE PER ACRE PER ACRE	ROYALTY VALUE PER ACRE PER YEAR PER ACRE PER ACRE PER ACRE PER ACRE PER ACRE
1	100	1/1/80	10000	100	100	100	100	100	100	100
TOTALS										

1531 MACEY ST
ANCHORAGE, AK 99503
4

11/13/11

ROYalty SUM
 1000 200
 100 200
 100-000

State Of Alaska
 Department of Natural Resources
 Oil and Gas Royalty Report Summary

Page 1 of 2
 Lease No. _____
 Field _____
 Zone _____
 Lease _____
 Produced By Unit _____
 M/A _____
 M/A _____
 TR 103 _____

Company: Fecompet Inc
 2700 200 2nd Ave, Suite 600
 Miami, FL 33170

Report For Month of: Jan 97
 Revenue Number: _____
 Date Of Revision: _____

(A) Lease Production (bbl) or (MCF)	(B) Working Interest Ownership %	(C) (b) (bbl) (MCF)	(D) Royalty Rate (%)	(E) (b) (bbl) or (MCF)	(F) Royalty In Kind (bbl) (MCF)	(G) Royalty In-Kind (bbl) (MCF)	(H) Royalty Value 3 per Bbl or BCF (See Page 2)	(I) Field Costs per Bbl or BCF	(J) Reported Royalty Per Bbl or BCF	(K) Royalty In Value Dollars
33700 20	25 0000%	8425 20	13 0000%	1117 53	609 10	508 43	519 6000%	53 8700	515 0100	59 665 25
33700 20		8425 20	0 12500	1117 53	609 10	508 43		0 8700		59 665 25

Grand Average Value

I hereby certify that I have examined this report, including all accompanying data and statements, and to the best of my knowledge and belief the same are true, correct, and complete.

By: T. J. Johnson
 Field Manager

Production Tax Accountant
 No. 1004 604-6000, ext. 370 3/27/97

ROYALTY ATTACH FORM 10-427
 OWNERS: ATTACH FORM 10-408
 MINOR

ROYALTY. VERIFICATION OF WIRE TRANSFER AMOUNTS OR A COPY OF THE CHECK MADE ON PAYMENT OF ITEM (9) MUST BE ATTACHED

(I) PRINCIPAL	(II) INTEREST	(III) TOTAL
54 29	0 00	54 29
15329 82	50 00	15379 82
0 00	0 00	0 00
59 129 82	50 00	59 179 82

- (1) COIP
- (2) Less Field Costs or HR
- (3) Date: (E update)
- (4) Review submitted with original report
- (5) Total Amount Due
- (6) Through (6)
- (7) Previous Amount Due
- (8) Balance (principal only / 8)
- (9) Interest Due On 9
- (10) Revision Amount (5 + 10)

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
OIL ROYALTY REPORT SUMMARY

PAGE 1 OF 2

LEASE PRUDHOE BAY

COMPANY NAME: MOBIL OIL CORPORATION
ADDRESS: P.O. BOX 690685
CITY, STATE, ZIP: DALLAS TX 75265-0595

REPORT FOR MONTH: January 1997
REVISION NUMBER: _____
DATE OF REVISION: _____

(A) GROSS UNIT OR LEASE PRODUCTION (BBL'S)	(B) WORKING INTEREST OWNER SHP	(C) (A) * (B) (BBL'S)	(D) ROYALTY RATE %	(E) (C) * (D) (BBL'S)	(F) ROYALTY IN-KIND (BBL'S)	(G) ROYALTY IN-VALUE (BBL'S)	(H) ROYALTY VALUE \$ PER BBL SEE PAGE 2	(I) FIELD COSTS PER BBL	(J) (H) - (I) REPORTED ROYALTY \$ PER BBL	(K) (G) * (J) ROYALTY IN-VALUE DOLLARS
28,110,108 00	0 01388820									
OIL		353,081.20	0 125	44,136 40	24,057 30	20,079 10	\$19 539	\$0 870	\$18 669	\$374,856 72
NGL'S		9,835 00	0 125	1,129 38	815 50	513 88	\$18 539	\$1 000	\$18 539	\$9,526 73
NGL'S to KRLI		4416 3	0 125	552 04	0 00	552 04	\$19 539	\$1 000	\$18 539	\$10,234 22
(1) Totals		366,542 50	0 125	45,817 81	24,872 80	21,145 01	19 539	0 870	18 669	(2) \$394,617 67

*WEIGHTED AVERAGE VALUE

I declare that I have examined this report, including accompanying
schedules and statements, and to the best of my knowledge and
belief it is true, correct, and complete

SIGNED:
TITLE:
PHONE NO:
DATE:

Mary Russo
AUTHORIZED AGENT Typed Name: G. C. Russ
(214) 851-3829
February 28, 1997

3) COTP Gravity Adjustment

Interest
1992 2,595.96
1-6/96 40.53
8/06 8.82
2,645.31

REVISED
REPORT
ONLY

10) Balance Subject
Line 9 from Line 8
Columns (h) & (i) only

11) Interest Due on 10

12) Revision Amount (10 + 11)

Principal	(K) Interest	(M) Total
170 48		170 48
21,545 35		21,545 35
0 00		0 00
373,242 80	0 00	373,242 80
45,552 17	2,645.31	48,197.48
\$418,794 97	314 50	\$419,109 47
		121,251.78

EXHIBIT A - Attachment 1, page 9

WBED 146
1/23/97 DNR 10-4638

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
OIL OR GAS ROYALTY REPORT SUMMARY

UNIT Prudhoe Bay
FIELD Sedmech
ZONE
LEASE 960701 and 960801
REPORT FOR MONTH OF JANUARY 1997
REVISION NUMBER
DATE OF REVISION

COMPANY NAME Phillips Petroleum Company
ADDRESS 1728 Plaza Office Building
CITY, STATE, ZIP Bartlesville, OK 74604

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Gross, Unit or acre Production Bbls) or (MCF)	Working Interest Ownership %	(a) x (b) (Bbls) or (MCF)	Royalty Rate (%)	(c) x (d) (Bbls) or (MCF)	Royalty In-Kind (Bbls) or (MCF)	Royalty In-Value (e) (f) (Bbls) or (MCF)	Royalty Value \$ per Bbl or MCF (See Page 2)	Field Costs per Bbl or MCF (\$)	(h)-(i) Reported Royalty per Bbl or MCF (\$)	(g) x (j) Royalty In-Value Dollars
23,159,051	0.0151737	351,408.00	0.125	43,926.00	23,942.70	19,983.30	20.69	0.87	19.82	396,069.01
1,721,816	0.0076556	13,181.50	0.125	1,647.69	898.00	749.69	20.69	1.00	19.69	14,761.40
(1) TOTALS		364,589.50	0.125	45,573.69	24,840.70	20,732.99				\$410,830.41

WEIGHTED AVERAGE VALUE

I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

MADE BY:

PREPARED BY JOE PROVENZANO (918) 661-3678
Sr. Laws & Regulations Specialist
PED NAME Donald I. Phillips
(918) 661-3678

DATE NO.

25 Feb 97

\$ ROYALTY:

ATTACH FORM 10-422

ROYALTY:

ATTACH FORM 10-405

AND/OR GAS ROYALTY: VERIFICATION OF WIRE TRANSFER AMOUNTS OR A COPY OF THE CHECK MADE IN PAYMENT OF ITEM(S) MUST BE ATTACHED

- (1) COIP 1,373.15 @ 125
- (4) Less Field Costs for RK
- (5) Other (Explain)
- (6) Subtotal (2 thru 5)
- (7) Revisions submitted with original report (1st)
- (8) Total Amount Due
- (9) Previous Amount Due
- (10) Balance Subtract Line 9 from Line 8 Columns (h) & (i) only
- (11) Interest Due on 10
- (12) Revised Amount (10+11)

(k)	(l)	(m)
PRINCIPAL	INTEREST	TOTAL
171.64		\$171.64
(21,728.15)		(\$21,728.15)
389,273.90		\$389,273.90
0.00	0.00	\$0.00
389,273.90	0.00	\$389,273.90

REC-111 P

AS OF: 01/31/1997 FROM: LK180210-01

ARCO ALASKA LLC.
 LISBURN PARTICIPATING AREA
 PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
 PRODUCTION MONTH JANUARY-1997

PAGE: 1
 RUN TIME: 12:42
 RUN DATE: 02/10/97

WORKING INTEREST OWNER	NOH. DECIMAL	ALLOCATED LIQUIDS	PBU CRUDL IIR	PIPELINE OFFTAKE	NGLS	LOAD DIESEL FROM OIF UNIT	ROYALTY BASE
EXXON	0.400000	175,766.00	372.00	176,138.00	23,253.20	0.00	152,884.80
BPX	0.200000	87,883.00	186.00	88,069.00	11,626.60	0.00	76,442.40
AAI	0.400000	175,766.00	372.00	176,138.00	23,253.20	0.00	152,884.80
TOTALS:	1.000000	439,415.00	930.00	440,345.00	58,133.00	0.00	302,212.00

JOB: R120017 PRD: LR184210-01
 AS Of: 01/31/1997

ARCO ALASKA INC.
 POINT MCINTYRE PA
 PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
 PRODUCTION MONTH JANUARY-1997

PAGE: 1
 RUN TIME: 15:15
 RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NOH. DECIMAL	ALLOCATED LIQUIDS	35 PBU CRUDE TIK	PIPELINE OFFTAKE	33 NGLS	LOAD DIESEL FROM OIF UNIT	ROYALTY BASE
EXXON	0.362504	1,899,334.27	0.00	1,899,334.27	30,787.71	0.00	1,868,546.56
BPX	0.348179	1,825,326.54	0.00	1,825,326.54	26,296.11	0.00	1,799,030.41
AAI	0.289117	1,514,824.19	0.00	1,514,824.19	24,581.16	0.00	1,490,243.01
TOTALS:	1.000000	5,239,485.00 X	0.00	5,239,485.00	81,665.00 X	0.00	5,157,820.00

AS OF: 01/31/1997

ARLO ALASKA INC.
WEST BEACH PARTICIPATING AREA
PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
PRODUCTION MONTH JANUARY-1997

PAGE: 1
RUN TIME: 15:16
RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NON. DECIMAL	ALLOCATED LIQUIDS	PBU CRUDE TIK	PIPELINE OFFTAKE	NGLS	LOAD DILSII FROM OFF UNIT	ROYALTY BASE
EXXON	0.500000	29,463.50	0.00	29,463.50	1,984.50	0.00	27,479.00
BP	0.500000	29,463.50	0.00	29,463.50	1,984.50	0.00	27,479.00
TOTALS:	1.000000	58,927.00	0.00	58,927.00	3,969.00	0.00	54,958.00

02/10/1997

CHOC ALASKA INC.
NIAKUK PARTICIPATING AREA
PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
PRODUCTION MONTH JANUARY-1997

PAGE: 1
RUN TIME: 12:43
RUN DATE: 02/10/1997

WORKING INTEREST OWNER	WOM. DECIMAL	ALLOCATED LIQUIDS	PDU CRUDE TIK	PIPELINE OFFTAKE	NGLS	LOAD DIESEL FROM OIF UNIT	ROYALTY BASE
BPX	1.000000	651,808.00	0.00	651,808.00	7,891.00	0.00	643,917.00
TOTALS:	1.000000	651,808.00	0.00	651,808.00	7,891.00	0.00	643,917.00

10:24 AM

JOB: MIZUOHNA PROG: LK184210-01
 AS OF: 01/31/1997

ARCO ALASKA INC.
 NIAGUK 27 TRACT OPERATION
 PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
 PRODUCTION MONTH JANUARY-1997

PAGE: 1
 RUN TIME: 12:44
 RUN DATE: 02/10/1997

WORKING INTEREST OWNER	NON. DECIMAL	ALLOCATED LIQUIDS	PBU CRUDE TIK	PIPELINE OFFTAKE	NGLS	LOAD DIESEL FROM OIF UNIT	ROYALTY BASE
EXXON	0.500000	62,528.00	0.00	62,528.00	651.50	0.00	61,876.50
AAI	0.500000	62,528.00	0.00	62,528.00	651.50	0.00	61,876.50
TOTALS:	1.000000	125,056.00	0.00	125,056.00	1,303.00	0.00	123,753.00

ARCO ALASKA, INC.
 P1-08 TAIL TRACT OPERATION
 PRODUCTION ALLOCATION / OFFTAKE SCHEDULE
 January 07

	<u>ARCO</u>	<u>CB</u>	<u>EXXON</u>	<u>TOTAL</u>
<u>CALCULATION OF REVENUE BASE</u>				
NOMINATION DECIMALS	1.000000	0.000000	0.000000	
ALLOCATED LIQUIDS	20,575.00	0.00	0.00	20,575.00
PBU CRUDE TK	0.00	0.00	0.00	0.00
PIPELINE OFFTAKE	20,575.00	0.00	0.00	20,575.00
NGLS	354.00	0.00	0.00	354.00
LOAD DIESEL/LOAD OIL	0.00	0.00	0.00	0.00
OIL REVENUE BASE	20,221.00	0.00	0.00	20,221.00
<u>CALCULATION OF ROYALTY BASE AT LEASE OWNERSHIP</u>				
LEASE OWNER DECIMALS	1.000000	0.000000	0.000000	
ALLOCATED LIQUIDS	20,575.00	0.00	0.00	20,575.00
PBU CRUDE TK	0.00	0.00	0.00	0.00
PIPELINE OFFTAKE	20,575.00	0.00	0.00	20,575.00
NGLS	354.00	0.00	0.00	354.00
LOAD DIESEL/LOAD OIL	0.00	0.00	0.00	0.00
ROYALTY BASE	20,221.00	0.00	0.00	20,221.00
<u>ROYALTY: OIL</u>				
ROYALTY-IN-KIND	552.36	0.00	0.00	552.36
ROYALTY-IN-VALUE	456.69	0.00	0.00	456.69
TOTAL ROYALTY	1,011.05	0.00	0.00	1,011.05
<u>ROYALTY: PBU CRUDE TK</u>				
ROYALTY-IN-KIND	0.00	0.00	0.00	0.00
ROYALTY-IN-VALUE	0.00	0.00	0.00	0.00
TOTAL ROYALTY	0.00	0.00	0.00	0.00
<u>ROYALTY: NGLS</u>				
ROYALTY-IN-KIND	9.67	0.00	0.00	9.67
ROYALTY-IN-VALUE	8.03	0.00	0.00	8.03
TOTAL ROYALTY	17.70	0.00	0.00	17.70

B P Exploration (Alaska) Inc.
 Prudhoe Bay Unit
 Royalty and Taxes Due State of Alaska
 January 1997

State of Alaska Royalty Information		Total									
		BP	ARCO	EXXON	MOBIL	PIUL	CHEV	TEX	FORGE		
Royalty Base (Total Oil/LD-TK)	26,106,137.0	10,109,735.9	7,290,066.0	7,703,556.7	366,059.3	364,589.4	161,269.4	100,128.9			9,111.3
Oil Royalty Base (Subtotal rights)	23,202,900.0	9,578,600.1	6,125,872.8	6,538,664.3	353,081.2	351,408.0	146,575.1	98,248.3			8,940.2
RK	1,577,710.3	652,690.1	415,804.3	443,926.2	24,057.3	23,942.7	9,986.7	6,694.0			609.1
RW	1,222,662.2	554,759.8	318,842.3	322,608.8	20,078.1	18,983.3	8,333.1	5,507.0			508.4
Total Royalty	2,800,372.5	1,187,450.0	785,746.6	817,333.0	44,138.4	43,926.0	18,321.9	12,281.0			1,117.5
NGL/LD Royalty Base	2,038,666.0	162,040.7	685,998.8	1,162,073.1	9,035.0	13,181.5	13,285.2	1,860.7			171.1
RK	138,884.1	10,357.8	46,801.8	79,166.2	615.5	808.0	905.1	128.1			11.7
RW	115,849.1	8,497.3	39,073.1	68,092.9	513.9	749.7	753.6	107.0			9.7
Total Royalty	254,833.3	19,005.1	85,874.8	145,259.1	1,129.4	1,647.7	1,650.7	235.1			214
NGL/LD/LD Royalty Base RW	664,971.0	378,095.1	477,914.4	2,873.4	4,733.1	0.0	1,409.0	0.0			0.0
Total Royalty Due	3,263,267.1	1,263,717.0	911,360.7	942,944.6	45,857.4	45,573.7	20,158.7	12,516.1			1,138.9

Taxes

Tax Base (same-LD- NGL-Royalty)	20,303,001.2	8,382,312.9	5,360,551.7	5,721,656.7	308,954.8	307,482.0	129,253.2	85,967.2			7,822.7
Oil Tax due (18.00% * ELF)	2,960,765.4	1,222,383.9	781,723.8	834,383.2	45,054.6	44,839.8	18,703.0	12,536.5			1,140.8
NGL Barrels	2,038,666.0	152,040.7	686,926.8	1,162,073.1	9,035.0	13,181.5	13,285.2	1,880.7			171.1
NGL - Royalty	1,783,832.8	133,035.6	601,123.9	1,016,813.9	7,905.6	11,533.8	11,624.6	1,645.6			149.7
NGL MCF equiv.	2,122,778	158,240	715,274	1,210,168	9,412	13,732	13,814	1,960			178

Current Royalty Rate 12.5%
 Current Tax Rate 15.0%
 Economic Link Factor 0.872193
 Economic Link Factor (for Gas) 0.764779

Calculation of Royalty Value - Prudhoe Bay Unit
January 1997

Lessee	Oil (barrels)	Royalty Value	Product of Volume Times Royalty Value
Lisburne Production Center			
Lisburne Participating Area			
ARCO	176,138.00	\$19.500	\$3,434,691.00
BP Exploration	88,069.00	\$18.120	\$1,595,810.28
Exxon	176,138.00	\$18.730	\$3,299,064.74
Point McIntyre Participating Area			
ARCO	1,514,824.19	\$19.500	\$29,539,071.71
BP Exploration	1,825,326.54	\$18.120	\$33,074,916.90
Exxon	1,899,334.27	\$18.730	\$35,574,530.88
West Beach Participating Area			
ARCO	29,463.50	\$19.500	\$574,538.25
BP Exploration	29,463.50	\$18.730	\$551,851.36
Niakuk Participating			
BP Exploration	651,808.00	\$18.120	\$11,810,760.96
West Niakuk Participating Area			
ARCO	62,528.00	\$19.500	\$1,219,296.00
Exxon	62,528.00	\$18.730	\$1,171,149.44
P109			
ARCO	20,575.00	\$19.500	\$401,212.50
Prudhoe Bay Initial Participating Area			
ARCO	6,812,971.60	\$19.880	\$135,441,875.41
BP Exploration	9,731,640.80	\$18.640	\$181,397,784.51
Chevron	159,860.30	\$23.248	\$3,716,432.25
Exxon	7,700,737.40	\$19.220	\$148,008,172.83
Forcengary	9,111.30	\$19.880	\$181,132.64
Mobil	362,126.20	\$19.539	\$7,075,583.82
Phillips	364,589.50	\$20.690	\$7,543,358.76
Texaco	100,129.00	\$18.950	\$1,897,444.55
Totals	31,777,362.10		607,508,676.79
Average Royalty Value			\$19.11768

Monthly Average Change in ANS West Coast Destination Values

Production Month	ARCO Value	% Change Previous Month	BP Exploration Value	% Change Previous Month	Exxon Value	% Change Previous Month	Average Percentage Change
Jan-97	\$23.45	-0.21%	\$23.44	-0.26%	\$22.88	-0.26%	-0.24%
Feb-97	\$20.27	-13.56%	\$20.26	-13.57%	\$19.69	-13.87%	-13.67%

APPENDIX B

EXAMPLES OF INTEREST AND LATE PAYMENT PENALTY

The following illustrates the date from which interest will accrue and the date that a late payment penalty will be assessed.

January 1 - 31, 1998 - State delivers January 1998 Sale Oil.

February 6, 1998 - State sends Mapco a statement of account that contains the production month invoice for January.

February 11, 1998 - (The date of the statement of account that contains January's production month invoice plus three business days) - Mapco must pay the January production month invoice amount in full on or before this date. If Mapco does not pay on this date, interest and a late payment penalty will accrue from this date on the unpaid balance until paid in full.

March 9, 1998 - State sends Mapco the statement of account that contains the initial adjustment invoice for January 1998 Sale Oil. Mapco owes the State an additional sum.

March 12, 1998 - Mapco must pay the initial adjustment invoice amount in full plus interest from February 11, 1998 through the March 12. If Mapco does not pay on or before March 12, 1998, interest and a late payment penalty will accrue from this date on the unpaid balance until paid in full.

January 11, 1999 - State sends Mapco a subsequent adjustment invoice for January 1998 Sale Oil. Mapco is entitled to a credit. State pays interest from February 11, 1998 through January 14, 1999, the date the statement of account that contains the subsequent adjustment invoice amount is due.

April 10, 2008 - Exxon notifies the State that, due to a clerical error, it has revised its royalty value for January 1998. The revision causes the Royalty Value for January 1998 to change.

April 17, 2008 - the State sends Mapco a statement of account that contains a subsequent adjustment invoice for January 1998. Mapco owes the State an additional sum.

May 17, 2008 - Mapco must pay the subsequent adjustment invoice amount for January 1998 Sale Oil in full plus interest calculated from February 11, 1998 through February 11, 2004. If Mapco does not pay the subsequent adjustment invoice amount in full on or before May 17, 2008, interest and a late payment penalty will accrue on the unpaid balance from February 11, 1998 until paid in full.

November 10, 2008 - The court settles a dispute between the TAPS carriers and shippers; carriers are awarded a higher tariff for January 1998.

November 28, 2008 - The State sends Mapco a statement of account that contains a subsequent adjustment invoice and a State Warrant for the subsequent adjustment invoice amount plus interest. Mapco is entitled to a refund that includes interest calculated from February 11, 1998 through November 28, 2008.

THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD

Resolution 98-1

On January 30, 1998, the Commissioner of Natural Resources provided the Alaska Royalty Oil and Gas Development Advisory Board ("Board") with the Preliminary Finding and Determination to Sell Royalty Oil to Mapco Alaska Petroleum Inc. dated January 30, 1998 ("Finding") and a copy of the proposed Agreement for the Sale and Purchase of State Royalty Oil to Mapco Alaska Petroleum Inc ("Contract"). Under the Contract, the Department of Natural Resources will sell approximately 28,000 barrels per day of Prudhoe Bay Unit royalty oil to Mapco for five years. Mapco will process the oil in its refinery in North Pole, Alaska.

The Contract was negotiated between representatives of the Division of Oil and Gas and Mapco over the past four months. On January 30, 1998, the division published the Finding, the Contract and gave public notice that the Board would review the Contract at a public hearing on February 17, 1998.

On February 17, the Board met to discuss the Contract and take public comments. Representatives from the division, representatives of Mapco, and members of the public attended the meeting. A presentation from division staff about the proposed sale and contract was given to the Board. After review and consideration of the information presented, public comment, and the criteria of AS 38.06.070, the Board approved the proposed sale and recommended the proposed contract be approved by the legislature.

Based on the Board's review of the Contract, the Commissioner's Finding, and the information presented at its public hearing, the Board is of the opinion that the proposed disposition of Prudhoe Bay Unit royalty oil to Mapco is consistent with AS 38.06.070 and AS 38.05.183. In report to the legislature, the Board adopts the Commissioner's Finding by reference, and recommends that the Twentieth Alaska State Legislature approve the Agreement for the Sale and Purchase of State Royalty Oil to Mapco Alaska Petroleum Inc.

Lynn Aleshire 2/17/98
Lynn/Aleshire Date

Thomas Cook 2-17-98
Thomas Cook Date

Wilson Condon 2/17/98
Wilson Condon Date

Becky Gay 2-17-98
Becky Gay Date

Becky Beck for Deborah B. Sedwick 2/17/98
Becky Beck for Deborah B. Sedwick Date

John Shively 2/17/98
John Shively Date

SENATE BILL No. 342
HOUSE BILL No. 469

HB

472

HFIN

FILE

HOUSE BILL 472
April 6, 1998
House Finance Committee

1. Introduction
 1. February 20 of this year, the Alaska Supreme Court issued a unanimous decision that a federal tax exemption does not apply in Alaska. The case is OSG Bulk Ships v. State.
 2. The federal provision exempts income from foreign-owned ships and aircraft.
 3. Result of the decision is that ships and aircraft that do business in Alaska will be taxed regardless of ownership.
2. History of the dispute
 1. Assessment issued in 1990, for tax years '79 - '88.
 2. Upheld at DOR formal hearing -- decision signed by Commissioner Rexwinkle in June, 1990.
 3. Superior Court held against the state; the state appealed to the Supreme Court; the state appeal to the Supreme Court and prevailed.
3. The OSG case
 1. State effect
 1. A good decision for the State. Will be helpful, whether this bill passes or not, to future interpretations of state tax law.
 2. Holds that Alaska's tax policy, as articulated in tax laws, should govern when reviewing the interplay between the Internal Revenue Code and the State's Corporate Income Tax.
 2. The case:
 1. The state incorporates much of the Internal Revenue Code into the Alaska tax unless "excepted to or modified by" Alaska law.
 2. The federal exemption essentially codifies federal tax treaties: if your country doesn't tax our ships and planes, we won't tax yours.
 1. These treaties are at national level -- don't bind "subnationals" like states.
 2. Tax by Alaska could subject Alaskan carriers to retaliatory taxation by foreign sub-nationals, but those carriers would get a \$ for \$ credit against their federal taxes for any foreign tax paid.
 3. The issue for the court was: does Alaska's Corporate Income Tax system "except or modify" the federal exemption (section 883)?
 1. The court found that the State's use of the apportionment method of taxation was so different from the federal "separate accounting" approach to defining "income" that Section 883 was not incorporated into Alaska law.
 4. This bill would reverse the court's decision.
 1. The result would be that foreign transportation businesses would be taxed exactly as Alaska transportation businesses are taxed.
4. Alaska's corporate income tax system.
 1. The State has always -- since before statehood -- used formula apportionment to

determine the in-state income of businesses that earn income in the state.

1. Looks at a business' everywhere income, and apports it by a formula related to business presence.
 1. Payroll, property, sales.
 2. In 1970, we joined the Multistate Tax Commission and adopted the "Uniform Division of Income for Tax Purposes Act" (UDITA).
 3. Originally, like many other states, applied this formula to a corporation and all of its affiliates (parents, subsidiaries, sibling corporations) worldwide.
 1. There was a great deal of international resistance to this approach
 2. Pressure from foreign taxpayers & governments
 - 3.
 4. In 1991, we adopted (for taxpayers other than oil) the "waters' edge" approach
 1. We were the last state to change.
 2. This approach excludes from the corporate family those corporations that don't do any business, or do a very small amount of business, in the United States
 3. Ironically, the ships whose income was taxed in OSG would not be included in our tax base today
 1. OSG was a worldwide case,
 2. Now would be waters' edge
 5. Pursuant to the Court's decision, we will tax foreign ships and aircraft by formula apportionment, using a "days in port" or "ground time" approach to their factors.
5. Retroactivity
1. Rep. Rokeberg asked me to think about the retroactivity provision
 2. I asked Law to look at it - their memo is before you.
 1. Raises serious legal questions about constitutionality of retroactive repeal of a tax.
 3. If there is no provision, DOR is unlikely to assign any of its scarce resources to compliance efforts under a repealed tax.
6. Fiscal Note
1. Since most of these transportation companies don't file tax returns (even though they are required to do so, and claim the exemption), we don't have direct information from the taxpayers
 2. We analyzed the cruise ship, air carrier and fishing export components and developed a range of potential loss -- \$3 to \$8.5 million

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 31, 1998

FURTHER REFERRALS:

Date of Committee Action: 4/6/97

The FINANCE Committee considered:

HB 472

HOUSE BILL NO. 472

APPORTIONMENT OF BUSINESS INCOME

"An Act relating to apportionment of business income."

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) DOR 3/31/98

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Cong Therriault</i>	Therriault			X	
<i>Edon Mulder</i>	Mulder	X			
<i>Terry Martin</i>	Martin	X			
<i>Ed Davies</i>	Davies			X	
<i>John Grussendorf</i>	Grussendorf			X	
<i>Carl E. Moses</i>	Moses			X	
<i>Delia Davis</i>	Davis	X			
<i>Bob Kelly</i>	Kelly	✓			
<i>Bob Foster</i>	Foster	X			

CHAIR'S SIGNATURE
 CO-CHAIR

Cong Therriault
 Therriault

STATE OF ALASKA
1998 LEGISLATIVE SESSION

FISCAL NOTE

.II Version: HB 472
(H) Publish Date: 3/31/98

Revision Date: _____ Dept. Affected: Revenue
 Title: Apportionment of Business Income BRU: Revenue Operations
 Component: Income and Excise Audit
 Sponsor: (H) L&C
 Requestor: (H) L&C COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
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 - Loss	\$3,000.0 - \$8,500.0	\$3,000.0 - \$8,500.0	\$3,000.0 - \$8,500.0	\$3,000.0 - \$8,500.0	\$3,000.0 - \$8,500.0	\$3,000.0 - \$8,500.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1001 CBRF						
1048 University of AK receipts						
Other						
TOTAL						

Estimate of any current year cost \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Please see attached analysis.

Prepared by: Brett Fried, Economist
 Division: Income and Excise Audit
 Approved by Commissioner: Wilson L. Condon
 Agency: Revenue

Phone: 465-3682
 Date: March 30, 1998
 Date: March 30, 1998

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HB 472 (L&C)
Apportionment of Business Income
Fiscal Note Analysis
March 30, 1998
Page 2

HB 472 – Apportionment of Business Income

HB 472 would amend Alaska's Corporate Income Tax to specifically incorporate Section 883 of the Internal Revenue Code. Alaska would exempt from tax the income of foreign owned aircraft and ships, under the legislation.

Overview of Section 883

The Alaska Supreme Court, on February 20, 1998, decided a case that determined that the federal corporate income tax exemption that applies to income from foreign owned ships and aircraft does not apply in Alaska. The federal provision is Section 883 of the Internal Revenue Code. The court held that, while Alaska incorporates much of the code into the Alaska Corporate Income Tax (AS 43.20), Section 883 was "excepted to or modified by" Alaska's choice of the apportionment method of determining taxable income in Alaska. The decision makes it clear that these entities are subject to tax in Alaska.

Revenue Effect

The state will collect less revenue by changing the statutes to exempt income from foreign owned ships and aircraft from Alaska income tax. We have had little time and we have very limited information available to develop projections of potential corporate tax revenue from the recent court decision on the taxation of foreign shipping corporations. Consequently, we have developed a range based on estimates of Alaska corporate income tax revenue from foreign cruise ship corporations, foreign air cargo corporations and foreign corporations shipping fish. We do not have financial information available to review the other segments of the shipping industry (mining and timber). To develop this range we used publicly available financial statements, information from taxpayer returns, and other industry specific data available from State agencies and other sources.

Based on the above paragraph our estimate of the range of potential annual revenue lost due to the passage of this bill is \$3.0 million to \$8.5 million.

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE MEMBERS:

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REPRESENTATIVE JOHN COWDERY, VICE CHAIRMAN
REPRESENTATIVE BILL HUDSON
REPRESENTATIVE JOE RYAN
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PHONE: (907) 258-8191
FAX: (907) 258-2916

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STATE CAPITOL, ROOM 24
JUNEAU, AK 99801-1182
PHONE: (907) 465-4954
FAX: (907) 465-2040

Labor and Commerce Committee

4/6/98

HB 472

Additional
Letters of Support

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first"

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

The Anchorage Times 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.

Unwelcome mat

GOV. TONY Knowles has spent much of his term convincing the international business community that Alaska is a good place to do business. Unfortunately, one of the departments in his administration has been busy sending out the opposite message.

The Department of Revenue, with the backing of the state Supreme Court, plans to collect a corporate income tax on revenues earned by foreign-flagged ships and aircraft carrying cargo and passengers to and from Alaska. The taxes will be applied retroactively to 1979.

Until now, Alaska — like the other 49 states — followed the lead of the Internal Revenue Service, which exempts the income of foreign carriers from taxation in the United States. Individual states have been discouraged from imposing their own levies because of the federal government's reciprocal tax exemption agreements with other countries.

But Alaska is taking a go-it-alone approach. A late-February ruling from the state's highest court gave the revenue department the go-ahead to tax the income of foreign carriers.

What impact will this have?

ACCORDING TO Juneau economist David Reaume, who was commissioned by the cruise ship industry to analyze the effects, the financial pinch could be widespread — not limited to the foreign carriers, but also extending to many companies doing business in international markets, ranging from tourism to resource development.

He predicts, for instance, that operational costs for the proposed delivery system to export Alaska natural gas will increase between \$20 million and \$30 million a year as a result of the application of this tax.

"The impact of the tax will be borne by Alaskans," says Rep. Norman Rokeberg, an Anchorage Republican who has introduced legislation to apply the applicable IRS exemption to Alaska law. "The tax will translate into higher transport fees or lower purchase prices for Alaskan resources."

Moreover, says Reaume, the tax will require companies to reduce expectations of future profitability in Alaska. In turn, that will affect private sector investments here, and, ultimately, jobs.

This is the exact opposite of what Gov. Knowles has been trying to achieve since taking office.

Rokeberg's bill, and a companion measure in the Senate by Anchorage Republican Loren Leman, will make it clear that this state — like 49 others — will not skim the income of foreign carriers doing business here.

The bill deserves top priority.



Anchorage Economic Development Corporation
The Center of Opportunity

March 26, 1998

Representative Rokeberg, Chairman
House Labor and Commerce Committee
State Capitol, Room 24
Juneau, Alaska 99801

Dear Representative Rokeberg:

The Anchorage Economic Development Corporation supports HB 472, An Act Relating to Apportionment of Business Income. This bill will overturn the recent decision of the State Supreme Court to allow the state to tax income from ships and aircraft owned by foreign corporations doing business in Alaska. The Alaska Corporation Net Income Tax would be applied to past, present and future net operating income. The State of Alaska depends on tourism and trade as its principal economic engines. Trade includes the export of oil and gas as well as seafood, timber and air cargo. The AEDC believes the implementation of business income taxes on foreign carriers selectively will have a significant deleterious effect on trade for the State of Alaska far in excess of any direct revenue obtained by the measure.

1. The State of Alaska would be the only state in the nation to impose such a tax. This would send a negative signal to some of Alaska's most important trading partners, such as Japan. The 1972 income tax treaty between Japan and the United States would be compromised. If any American state imposes such a tax, Japan would reciprocate against all American carriers. This principle has already been tested in New Jersey and New York several years ago.
2. Imposing this tax would negate the recently secured U. S. Department of Transportation ruling for Alaskan international airports to allow expanded cargo transfer among international and domestic carriers with traffic rights in Alaska. The recently concluded bilateral aviation agreement would be compromised by this action. The promotion of the air cargo industry and related logistics and value added manufacturing would suffer a severe set back at a crucial time. The market for international cargo trade is extremely competitive, with narrow margins determining the distinctions among competing locations. The imposition of a selective tax on international carriers would have a negative effect on some of Alaska's strongest contributors to cargo trade.
3. The imposition of this tax will discourage high value job development in Alaska. For each \$50 million generated in taxes, approximately 1,000 existing jobs would be lost. Such a tax discourages investment in Alaskan projects and operations

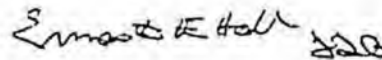
because it raises the cost of transportation to foreign destinations. Alaska depends on foreign markets for the economic value of its export products. The Alaska market is not large enough to sustain the economy here alone, and the American domestic market is not the only destination of Alaskan goods.

4. The imposition of this tax retroactively to 1992 connotes a punitive approach to international carriers. This sends the wrong message to foreign corporations and poses troubling questions for all business investors regarding the prospective taxation policies of Alaska toward business.

The growth and diversification of the Alaska economy is essential for the long term viability of the state. A prosperous future will only occur in an environment where taxation and revenue policies are fair and evenly distributed on a sound policy basis. The imposition of a tax on foreign carriers unfairly affects Alaska's most important trading partners. This measure will have a negative effect on Alaska's competitive standing in world trade. This selective foreign carrier tax must not be implemented unilaterally by Alaska.. The AEDC urges your favorable action on HB 472 to remove this impending disaster.

Please contact the AEDC President, Patricia DeMarco, should you require further information un this matter.

Sincerely,



Ernie Hall
Chairman of the Board of Directors

cc: Governor Knowles
Senator Pearce

Alaska Airlines

BILL MACKAY
VICE PRESIDENT
PUBLIC AFFAIRS

April 6, 1998

Representative Norman Rokeberg
Alaska State Legislature
State Capitol - Room 24
Juneau, AK 99801-1182

04-06-98A10:09 RCVD

Dear Representative Rokeberg:

I write you today not only as a representative of Alaska Airlines, but in my official capacity as State of Alaska Public Affairs Coordinator for the Air Transport Association as well.

The Air Transport Association (ATA) represents the major U.S. domestic airlines. Our Alaska members include Alaska Airlines, Reeve Aleutian, Federal Express, United, Northwest, Continental, Delta, Reno Air, America West and United Parcel Service. We are gravely concerned about the possibility the Alaska Department of Revenue is poised, as a result of a recent Alaska Supreme Court decision, to implement what amounts to a new tax on foreign flagged air carriers.

In addition to negative impacts on foreign flagged carriers and their customers in Alaska, the imposition of such a tax is likely to have a serious negative impact on international airline tax agreements that depend on reciprocal provisions for non-taxation of foreign flagged carriers. Simply put, any time a state or local government in the United States imposes a tax on foreign carriers, it exposes U.S. carriers to the imposition of similar taxes in nations around the globe. In addition, the imposition of such a tax would seriously imperil the International Airport system's attractiveness as a stop between Asia and Europe.

In the past, whenever states have contemplated implementing such a tax, ATA has successfully worked with the states as well as the U.S. State and Treasury Departments to head off actual implementation. Most recently, the states of California, New York and New Jersey have withdrawn proposals to tax foreign flagged carriers. To our knowledge, Alaska would be the only state in the Union imposing such a tax if it decides to move forward.

Therefore, ATA and its members respectfully urge you to refrain from imposing any new taxes on foreign carriers and asks you to consider supporting legislation to correct this problem. If we may be of assistance or should you require additional information, please do not hesitate to contact me.

Sincerely,

Bill Mackay

CONVENTION BETWEEN THE GOVERNMENT
 OF THE REPUBLIC OF KOREA AND THE
 GOVERNMENT OF THE UNITED STATES OF AMERICA FOR
 THE AVOIDANCE OF
 DOUBLE TAXATION AND THE PREVENTION
 OF FISCAL EVASION WITH RESPECT TO
 TAXES ON INCOME AND THE
 ENCOURAGEMENT OF
 INTERNATIONAL TRADE AND
 INVESTMENT

Signed at Seoul June 4, 1976
 Entered into force October 20, 1979

The Government of the Republic of Korea and the Government of the United States of America, desiring to conclude a convention for the avoidance of double taxation of income and the prevention of fiscal evasion and the encouragement of international trade and investment, have appointed for that purpose as their respective Plenipotentiaries:

The Government of the Republic of Korea:

His Excellency Park Tong-Jin

Minister of Foreign Affairs of the Republic of Korea:

The Government of the United States of America:

His Excellency Richard L. Sneider

Ambassador Extraordinary and Plenipotentiary of the United States of America to the Republic of Korea:

who having communicated to each other their full powers, found in good and due form, have agreed upon the following articles.

406 배 제 10조 (해상 및 항공운수)

제8조(사업소득)에 관하고 인방채약국의 거주자가 국제운수상 선바 또는 항공기의 운행으로부터 얻는 소득은 타방채약국에 의한 조세로부터 면제된다. 본 조의 목적상 선바 또는 항공기의 국제운수상의 운량으로부터 발생하는 소득에는 콘테이너 및 콘테이너의 내륙운송을 위한 트레일러와 기타 관련되는 장비의 사용 또는 임대로부터 발생하는 소득과 같이 동 운송에 부수되는 소득이 포함되나, 콘테이너의 내륙 운송으로부터 발생하는 기타의 소득은 포함되지 아니한다.

Article 10 (Shipping and Air Transport)

Notwithstanding Article 8 (Business Profits), income which a resident of one of the Contracting States derives from the operation in international traffic of ships or aircraft shall be exempt from tax by the other Contracting State. For purposes of this Article, income derived from the operation in international traffic of ships or aircraft includes income incidental to such operation, such as income derived from the use or lease of containers, trailers for the inland transportation of containers and other related equipment, but does not include other income from the inland transportation of containers.

관련예규

- (국)국인 46017-797 95/12/29
미국비승함에 적용하는 전시기료
- (국)국인 22601-81 92/02/20
국제항공운수소득
- (국)국인 22601-280 91/05/14
외국인의 과세표준 계산

- (국)국인 22601-299 90/06/02
선박집사업무
- (국)국인 22601-316 88/08/16
국제운수소득에 부수되는 소득의 범위
- (국)국인 22601-391 87/08/29
항공기에 의한 국제운송업자의 보관료수입

제11조
【특수관계인】

1. 이 조는 제약국의 조세관할권에 따라야 하는 인과 자신의 일이 특수관계에 있으며, 또한 그러한 특수관계인 간에 독립인 간에 행하여지는 것과는 상이한 약정을 그들 간에 체결하거나, 또는 조건을 부과하는 경우에, 동 약정 또는 조건이 없었다면 상기 어느 인의 소득(또는 손실) 또는 그 인의 납부세액계산에 고려되었을 것이나 그 약정 또는 조건때문에 계상되지 아니한 소득·비용공제·세액공제 또는 소득공제·이액의 내상이 되는 소득액 또는 동 특수관계인이 부담해야 할 세액을 계산함에 있어서 고려될 수 있다.

Article 11(특수관계인)
Related Persons

1. Where a person subject to the taxing jurisdiction of one of the Contracting States and any other person are related and where such related persons make arrangements or impose conditions between themselves which are different from those which would be made between independent persons, any income, deductions, credits, or allowances which would, but for those arrangements or conditions, have been taken into account in computing the income (or loss) of, or the tax payable by, one of such persons, may be taken into account in computing the amount of the income subject to tax and the taxes payable by such person.

2. 이 협약의 목적상 어느 인이 직접적으로 또는 간접적으로 타인을 소유하거나 또는 지배하는 경우, 또는 어느 제3자가 직접적으로 또는 간접적으로 상기

2. For the purposes of this Convention, a person is related to another person if either person owns or controls directly or indirectly

398 III 국

제 7 조
【무 차 별】

Article 7(무차별)
Non-discrimination

1. 타방채약국의 거주자인 민방채약국의 시민은 동 타방채약국내에서 동 타방채약국의 거주자인 동 타방채약국의 시민이 부담하는 것보다 더 많은 조세에 부담하지 아니한다.

1. A citizen of one of the Contracting States who is a resident of the other Contracting State shall not be subjected in that other Contracting State to more burdensome taxes than a citizen of that other Contracting State who is a resident thereof.

2. 민방채약국의 거주자가 타방채약국내에 두고 있는 고정사업장은 동 타방채약국내에서 동일한 활동에 종사하는 동 타방채약국의 거주자가 부담하는 것보다 더 많은 조세를 부담하지 아니한다. 본 항은 이: 채약국이 그 개인거주자에게 시민으로서의 지위 또는 가족부양책임으로 인하여 부여하는 조세특혜상의 인적공제·면제 또는 비용공제를 동 채약국이 민방채약국의 개인 거주자에게 부여해야 하는 의무를 부과하는 것으로 해석되어서는 아니된다.

2. A permanent establishment which a resident of one the Contracting States has in the other Contracting State shall not be subject in that other Contracting State to more burdensome taxes than a resident of that other Contracting State carrying on the same activities. This paragraph shall not be construed as obliging one of the Contracting States to grant to individual residents of the other Contracting State any personal allowances, reliefs, or deductions for taxation purposes on account of civil status or family responsibilities which the first-mentioned Contracting State grants to its own individual residents.

3. 이 조문의 전부 또는 일부가 타방채약국의 1인 이상의 거주자에게 의하여 직접적으로 또는 간접적으로 소유되거나 또는 지배되고 있는 어느 채약국의 법인, 동원한 활동에 종사하는 동 채약국의 법인으로서 이 조문의 전부가 동 채약국의 1인 이상의 거주자에게 의하여 소유되거나 또는 지배되고 있는 동 법인이 부담하거나 또는 부담할 수 있는 조세와 이에 관련된 이 조문의 이외의 다른 또는 더 많은 조세 또는 이에 관련된 요건을 동 채약국내에서 부담하지 아니한다.

3. A corporation of one of the Contracting States, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned Contracting State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which a corporation of the first-mentioned Contracting State carrying on the same activities, the capital of which is wholly owned or controlled by one or more residents of the first-mentioned Contracting State, is or may be subjected.

관련여규

- (1) 독일 46017-717 95/11/14
 - (2) 영국국 367.3(3) 84/02/01
- 민원배달하여서 미국선급협회의 가세 여부

제 8 조
【사 업 소 득】

Article 8(사업소득)
Business Profits

1. 민방채약국의 거주자의 사업상 또는 상업상의

1. Industrial or commercial profits of a

제 1 조
【대상조세】

Article 1(대상조세)
Taxes Covered

1. 이 협약의 대상이 되는 조세는 다음과 같다.

1. The taxes which are the subject of this Convention are:

- (가) 한국의 경우에는 소득세 및 법인세(한국의 조세)
- (나) 미국의 경우에는 내국세법에 의하여 부과되는 지방소득세(미국의 조세)

- (a) In the case of Korea, the income tax and the corporation tax (the Korean tax), and
- (b) In the case of the United States, the Federal income taxes imposed by the Internal Revenue Code (the United States tax).

2. 이 협약은 상기 1.항에 의하여 포함되는 조세와 실질적으로 유사한 조세로서 이 협약의 서명국가에 의해 현행조세에 추가하여 부과되거나 또는 현행조세에 추가하여 부과되거나 또는 현행조세에 대체하여 부과되는 주세에 대하여도 적용된다.

2. This Convention shall also apply to taxes substantially similar to those covered by paragraph 1. which are imposed in addition to, or in place of, existing taxes after the date of signature of this Convention.

3. 제7조(무차별)의 목적상 이 협약은 중앙정부·주정부 또는 지방정부의 수준에서 부과되는 모든 종류의 조세에 대하여도 적용된다. 제28조(정보의 교환)의 목적상 이 협약은 중앙정부의 수준에서 부과되는 모든 종류의 조세에 대하여도 적용된다.

3. For the purpose of Article 7 (Nondiscrimination), this Convention shall also apply to taxes of every kind imposed at the national, state, or local level. For the purpose of Article 28 (Exchange of Information) this Convention shall also apply to taxes of every kind imposed at the national level.

제 2 조
【일반적 정의】

Article 2(일반적 정의)
General Definitions

1. 달리 문맥에 따르지 아니하는 한, 이 협약에 있어서 아래의 용어들은 각기 다음의 의미로 가진다.

1. In this Convention, unless the context otherwise requires:

(가) (1) "한국"이라 함은 대한민국을 의미한다.

(a) (1) The term "Korea" means the Republic of Korea; and

(2) "한국"이라 함은, 지리적 의미로 사용되는 경우여, 한국의 조세에 관한 법이 효력을 가지는 모든 영역을 의미한다. 한국이라 함은 또는 다음의 것을 포함한다.

(2) When used in a geographical sense, the term "Korea" means all the territory in which the laws relation to Korean tax are in force. The term also includes:

(A) 한국의 영해

(A) The territorial sea thereof, and

(B) 해저지역의 자연자원의 탐사 및 채취를 목적으로 국제법에 따라 한국이 주권적권리를 행사하는 영해밖의 한국의 연안에 인접한 해저지역의 해상과 하층토. 다만, 이 협약이 적용되는 인·재산 또는 활동이 그러한 탐사 또는 채취와 관련된 범위에 한한다.

(B) The seabed and subsoil of the submarine areas adjacent to the coast thereof, but beyond the territorial sea, over which Korea exercises sovereign rights, in accordance with International law, for the purpose of exploration and exploitation of the natural resources of such areas, but only to the extent that the person, property, or activity to which this Convention is being

JOINT-STOCK COMPANY



AEROFLOT

Russian International Airlines

P.O. Box 91602
Anchorage, AK 99509-1602
Tel: (907) 248-8400
Fax: (907) 248-8404
SITA: ANCTOSU

April 1, 1998

Representative Mark Hanley
Co-Chair House Finance Committee
FAX:(907) 465-4939

VIA FACSIMILE

Dear Representative Hanley:

I am writing to you to express Aeroflot Russian International Airlines full support of house Bill 472. We are an International passenger/cargo airlines that has been doing business in Alaska for more than 10 years.

Aeroflot employs 7 people in our Anchorage office and many other jobs at the airport are tied to our landings at Anchorage International Airport.

Recently we have seen a decrease in our passenger traffic from Anchorage and an increase in passenger boardings from our Seattle office. With the lower passenger numbers in Anchorage we are trying to reduce costs everywhere we can. If this new tax is enacted in Alaska it would be the only State to which we fly that we would be required to pay such a tax. The additional tax burden could force our headquarters to look at over-flying Anchorage on our Russian Far East flights, if the mandatory stop for Anchorage is removed from the bilateral air treaty between Russia and America.

I thank you for your consideration of this matter.

Sincerely,

Alexander Balaur
Manager, Alaska Region

Post-It Fax Note	7671	Date	4/2	# of pages	1
To	GREG CHAMPION	From	HELEN SUN		
Co/Dept.		Co.			
Phone #	RM #729	Phone #			
Fax #	907-586-318	Fax #			



Cathay Pacific Airways Limited
Room NA 208, North Terminal
P.O. Box 190104
Anchorage International Airport
Anchorage, AK U.S.A. 99519-0104
Telephone: (907) 243-3954
Facsimile: (907) 243-3662
SITA ANCKZCX

April 1st, 1998

Representative Mark Hanley
Co-Chair House Finance Committee
FAX: (907) 465 - 4939

VIA FAX TRANSMISSION

Dear Representative Hanley:

I am writing to you today to express Cathay Pacific Airways' full support of House Bill 472. We are an international passenger/cargo airline that has been conducting business in Anchorage for more than 7 years.

I am sure you will appreciate that one of the most attractive benefits of utilizing Anchorage as a transit point for international air carriers, are the various costs associated with a transit operation. Many carriers, such as Cathay Pacific, that do not uplift revenue cargo passengers from Anchorage, greatly depend on the cost efficiency of Anchorage as a viable transit point between Southeast Asia and North America. We are committed to achieving the most economical means of operating in Anchorage without compromising service.

If this income tax were enacted, Alaska would be the only State in the United States to levy such a tax. Currently the international cargo growth is currently estimated at an impressive 15% per month. The City of Anchorage benefits significantly from this growth, however this tax could lead international airlines to view Anchorage as an unfavorable place to do business. The ramifications of this tax are tremendous and will no doubt have an extreme impact on international aviation in Alaska.

Your consideration in this matter is greatly appreciated

Sincerely,
CATHAY PACIFIC AIRWAYS LTD

A handwritten signature in black ink that reads "J Russ Fortson".

J Russ Fortson
Airport Services Manager



Sheraton Anchorage

H O T E L

Sheraton

March 31, 1998

Representative Mark Hanley
Co-Chair House Finance Committee
Fax: (907) 465-4939

Dear Representative Hanley,

I am writing to you in full support of House Bill 472, as the General Manager of the Sheraton Anchorage Hotel and Inter-Alaska Hotels Incorporated and sister company to Hanjin International Corporation (a foreign corporation) the parent company of Korean Air, I also represent the interests of Korean Air in Alaska.

As long term partners with the City of Anchorage and State of Alaska, we have been involved in a variety of business based in Alaska. Our holdings have or do include real property, apartment buildings, cargo/passenger flights, in-flight catering facilities, laundry/linen cooperative company, and of course, the Sheraton Anchorage Hotel. Our Alaska operations account for a total in excess of 350 full time Alaskan employees including airport staff. Our investments show a desire to participate at all levels of both business and social growth for the city and state. Our commitments to date encompass more than just economic stability for our employees, but the reality of participating in significant ways to a long list of charitable organizations and groups that provide for the greater well being of the entire community.

To provide a little history on the Anchorage International Airport and our business operations, please recall approximately ten (10) years ago 1987. During this time period Anchorage lost nearly every foreign air carrier as a result of the opening of Russian Airspace and increased technology. The reason business was lost was that the carriers found significant economic gains by using Russian Airspace and the ability to eliminate Anchorage as a technical stop. Moreover, as fees, taxes, landing rights, and other taxes continue to escalate all carriers will again be forced to evaluate options and costs. Since Anchorage is not a final destination for any of the 12 foreign carriers, please consider that other options are and will become available. It has already been determined that Stockholm is over 15

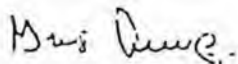
minutes closer to the East Coast for a majority of flights from Asia, a significant savings to daily operations. In addition, as Russian locations continue to improve facilities and logistical concerns these locations will again receive future consideration. The current economic crisis in Asia also plays a role in these decisions. In addition, regardless of the State Supreme Court decision Korea and the U.S. Government have a standing law that eliminates double taxation scenarios, clearly this new law would violate that Federal agreement. (See attached partial document.)

At this time, the cost of doing business has been in favor of not only maintaining Alaskan operations but to significantly develop systems and infrastructure that will lend itself to increases to the year 2000 and beyond provided Anchorage remains economically competitive.

In closing, if this income tax is enacted, Alaska would be the only State in the nation to levy such a tax. This tax would lead many nations to view Alaska as an unfavorable place to do business and open the door to these countries to levy similar taxes on American based operators. The ramifications of this tax are immense and will have a drastic impact on this state and virtually all business ventures including tourism, natural resources, and future business development. I cannot think of a more devastating blow to the economic growth that Alaska has enjoyed for the last several years.

I would be happy to provide any additional information or comments that you desire and will be in Juneau on Wednesday and Thursday if you have time to schedule an appointment.

Sincerely,



Greg Champion
General Manager



International Air Transport Association

IATA Centre, Route de l'Aéroport 33
P. O. Box 416
CH-1215 Geneva 15 Airport
Switzerland

Facsimile No: +1 (907) 465-2040
(2 Pages)

Honourable Mark Hanley
Co-Chair, House Finance Committee
Alaska House of Representatives
State Capitol, Room 507
Juneau, Alaska 99801-1182
United States of America

6 April 1998
Ref: 044/98

Re: House Bill No. 472

Dear Representative Hanley,

On behalf of the International Air Transport Association (IATA), the trade association comprised of 256 member airlines from over 150 countries, I wish to express the strongest support for House Bill No. 472. HB 472 would ensure that the income of non-U.S. airlines serving Alaska would be exempt from the state's income tax in accordance with U.S. Internal Revenue Code Section 883.

IATA is deeply concerned with the potentially far-reaching ramifications of the recent Alaska Supreme Court decision in *Alaska v. OSG Bulk Ships, Inc.* Indeed, it is our understanding that on the basis of this decision, the Department of Revenue plans to levy the Alaska corporate income tax on the income derived by non-U.S. airlines from the operation of their aircraft in international traffic.

It is widely known that U.S. IRC Section 883 exempts the income of non-U.S. airlines at the federal level on the basis of reciprocity. These reciprocal exemptions are generally embodied in numerous U.S. treaties for the avoidance of double taxation. IATA firmly believes that U.S. IRC Section 883 is intended, *inter alia*, to eliminate the risk of multiple taxation of the income derived by the aircraft of both U.S. and non-U.S. airlines in international traffic.

If the State of Alaska chooses not to adhere to the reciprocal tax exemption provisions of U.S. IRC Section 883, non-U.S. airlines will be exposed to double (and even multiple) taxation, as they are already subject to national (and often local) income taxes in their respective countries of domicile. Furthermore, one immediate consequence of this tax

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Telephone: +41(22) 799 25 25 • Fax: +41(22) 798 35 53 • TTY: GVAKEXB • Telex: 415586

treatment of non-U.S. airlines will be the exposure of U.S. airlines to the reciprocal imposition of similar taxes in the many foreign jurisdictions which they serve. Ultimately, the intricate worldwide network of reciprocal tax regimes will be seriously jeopardized.

IATA also believes that any imposition of an income tax on the international operations of the non-U.S. airlines serving Alaska would ignore the taxes and charges already paid by them for their local operations as well as the significant direct and indirect contributions they make to the economy of the state. We believe that HB 472 sends a strong signal to the international airline community that the State of Alaska encourages their business on the basis of long-established international tax regimes.

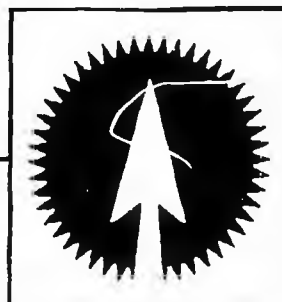
Based upon the foregoing, IATA strongly urges you to take all necessary steps to ensure the passage of House Bill No. 472.

Yours sincerely,



Tony Kelly
Director
Industry Monetary Affairs

Alaska Forest Association, Inc.



111 STEEDMAN SUITE 200
KETCHIKAN, ALASKA 99901-6599
Phone 907-225-6114
FAX 907-225-5920

April 2, 1998

The Honorable Mark Hanley
The Honorable Gene Therriault
Alaska House of Representatives
State Capitol
Juneau, AK 99801

Dear Representatives Hanley and Therriault:

The Alaska Forest Association strongly supports House Bill 472, "An Act relating to apportionment of business income." The Alaska forest industry depends heavily on foreign vessels for shipments of logs and wood products to its trading partners around the Pacific Rim. The recent Alaska Supreme Court ruling that the exemption in §883 of the Internal Revenue Code does not apply in Alaska will have a significant deleterious effect on those shipments.

Fortunately, the problem can be fixed with a simple change in state statute. House Bill 472, introduced by the House Labor and Commerce Committee, provides the necessary amendment, and I urge you to take speedy action to ensure passage of this bill. I cannot emphasize enough the importance of making the change this year, before a disruption in Alaska's trade occurs.

Please move HJB 472 through the Finance Committee at the earliest opportunity, and support it when it reaches the House floor.

Thank you for your consistent support for Alaska's resource development industries. We would especially appreciate your help on this new issue.

Sincerely,

Jack E. Phelps
Executive Director

cc: Representative Mulder
Representative Davis
Representative Foster
Representative Kelly
Representative Kohring
Representative Martin
Representative Davies
Representative Grussendorf

Representative Moscs
Representative Rokeberg
Representative Phillips
Thyes Shaub

CADWALADER

Cadwalader, Wickersham & Taft

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Fax: 202 862-2400

Kenneth Klein
Direct Dial: 202-KA2 2482
Internet: kklein@cwt.com

New York
Washington
Los Angeles
Charlotte
London

April 3, 1998

BY FACSIMILE

Mr. Joe Kyle
Executive Director
Alaska Steamship Association
234 Gold Street
Juneau, Alaska 99801

Re: Potential Retaliatory Impact on U.S. Carriers Abroad of State
Taxation of Foreign Carriers

Dear Mr. Kyle:

You have asked me to describe the retaliatory impact abroad on U.S. shipping and air transport companies that could occur if a U.S. state or locality were to impose state or local income taxation on foreign shipping and air transport companies that are not subject to U.S. federal income taxation as a result of U.S. income tax treaties with foreign countries.

We are not aware of any U.S. state or locality that currently subjects to state or local taxation the income of foreign carriers that are eligible for the benefits of reciprocal shipping income agreements. Under such agreements, foreign countries exempt U.S. carriers from foreign tax if the United States reciprocally exempts foreign carriers from U.S. tax. U.S. income tax treaties or other agreements with over 70 countries provide such reciprocal exemptions. However, if state or local income taxes were to be imposed on foreign carriers by *even one* U.S. state or locality (as the State of Alaska currently is considering doing), retaliation by foreign jurisdictions would be permitted under U.S. income tax treaties, as discussed below.

For example, under the income tax treaties that the United States has entered into with Japan, Italy, and France, each country exempts from its national

Mr. Joe Kyle

-2-

April 3, 1998

income tax the income derived by a resident of the other jurisdiction from the operation of ships or aircraft in international traffic.¹ Moreover, through exchanges of diplomatic notes, these foreign nations also exempt the income of U.S. shipping and air transport companies from local taxes, such as the enterprise tax in Japan,² the "ILOR" in Italy,³ or the "taxe professionnelle" in France,⁴ provided that no state, county, or local government in the United States levies an income tax on shipping and air transport companies resident in such countries. So, for example, if no U.S. state or locality taxes the income of a Japanese shipping and air transport company, a U.S. shipping and air transport company that moves cargo between the United States and Japan would pay only U.S. federal, state, and local income taxes because it would be exempt from Japanese national and local income taxes. Similarly, a Japanese shipping or air transport company moving cargo between Japan and the United States would be exempt from U.S. federal, state and local income taxes and would only pay Japanese national and local income taxes. Although Congress has not enacted a statute or entered into a treaty that would require the states to exempt non-U.S. shipping and air transport companies from state and local income taxes, the U.S. Departments of State and Treasury have actively enlisted the cooperation of the U.S. states and localities in advancing this policy. For example, in recent years both the States of New York and New Jersey contemplated taxing foreign carriers. State and Treasury Department officials had discussions with tax officials from those states, encouraging them not to tax foreign carriers because of the retaliatory impact such taxation could have on U.S. carriers abroad. Both New York and New Jersey decided not to impose their taxes on foreign carriers.

If any U.S. state or locality (e.g., Alaska) were to tax the income of shipping and air transport companies residing in, Japan, Italy, or France, the equivalents of states or localities in those countries could then impose their taxes on U.S. shipping and air transport companies. To illustrate, in the 1971 exchange of diplomatic notes, the Japanese government stated that if a U.S. locality were to levy an income tax on Japanese shipping and air transport companies, the Japanese government would "take necessary measures" to let local Japanese authorities levy the Japanese enterprise tax on all U.S. shipping and air transport companies. Therefore, regardless of whether it is a resident of the state or locality that initially imposed the income tax on Japanese shipping and air transport companies, a U.S. shipping or air transport company that moves cargo or passengers between the

¹ Income Tax Convention, March 8, 1971, U.S.-Japan, Article 10. Income Tax Convention, April 17, 1984, U.S.-Italy, Article 8(1). Income and Capital Tax Convention, August 31, 1994, U.S.-France Article 8(1).

² Exchange of Notes, March 8, 1971, U.S.-Japan.

³ Exchange of Notes, April 17, 1984, U.S.-Italy.

⁴ Exchange of Notes, August 31, 1994, U.S.-France.

Mr. Joe Kyle

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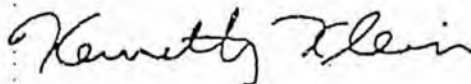
April 3, 1998

United States and Japan could become required to pay local Japanese income taxes in addition to its U.S. income taxes, although the company would still be exempt from the Japanese national income tax. The corresponding Japanese shipping and air transport company would similarly pay U.S. state and local income taxes in addition to its Japanese income taxes. Similar provisions are included in the exchanges of diplomatic notes with Italy and France.

While Japan, Italy, and France have formal agreements with the United States in this regard, we understand that informal agreements of a similar nature exist with many other of the 70 countries which provide reciprocal exemptions to U.S. carriers. Thus, the taxation of foreign carriers by Alaska could directly result in retaliatory taxes being imposed on U.S. carriers in a number of foreign jurisdictions.

If I can provide you with additional information in this regard, please let me know.

Sincerely,



Kenneth Klein

EXXON COMPANY, U.S.A.

POST OFFICE BOX 100601 • ANCHORAGE, ALASKA 99519-0601 • TELEPHONE (907) 561-6331

PRODUCTION DEPARTMENT
ALASKA INTEREST

JAMES F. BRANCH
PRODUCTION MANAGER • ALASKA

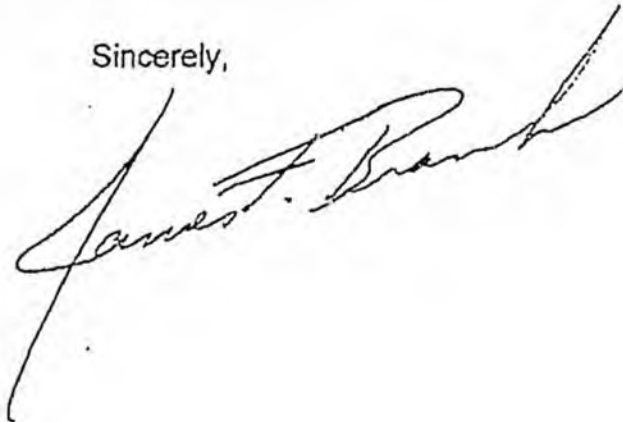
March 30, 1998

The Honorable Norman Rokeberg
Alaska State Legislature
State Capital (MS 3100)
Juneau, Alaska 99801-1182

Dear Representative Rokeberg:

Exxon continues to support efforts to make Alaska's tax statutes more consistent with the Internal Revenue Code, including clarifying the Legislature's intent to adopt Internal Revenue Code Section 883. Since House Bill 472 is consistent with this principle, Exxon supports your efforts with the bill.

Sincerely,



DMS:dgo



TESTIMONY OF ROBERT B. STILES
BEFORE THE ALASKA HOUSE LABOR & COMMERCE COMMITTEE
March 30, 1998

The Problem

- The Alaska Net Income Tax Act (ANITA) incorporates, by reference, groups of sections of the US Internal Revenue Service Code.
- The Alaska Department of Revenue (or more likely an attorney working for the Department of Law) opined that Alaska, for the purposes of calculating tax liability under ANITA, could/should include the worldwide net income of shipping corporations without regard to the country of registration(flag) of the vessels operated by the corporation. As a result, the DOR attempted to implement the attorney's opinion and was sued by OSG Bulk Ships, Inc. OSG is US subsidiary of a parent US corporation, which parent has subsidiaries which operate foreign flag vessels. Having not seen the legal opinion upon which DOR acted, there is no way of knowing if the opinion addressed non-US corporations which have foreign flag vessels or foreign registered aircraft servicing Alaska.
- It appears that the OSG argument in court centered around the so-called Section 883 exemption granted under US IRS code. Section 883 is included in a block of IRS sections included by reference in ANITA.
- OSG prevailed in Alaska Superior Court, the Department of Revenue prevailed on appeal to the Alaska Supreme Court. In ruling in favor of the Department of Revenue the Alaska Supreme Court eliminated the 883 exemption which exempts foreign flag vessels and foreign registered aircraft from taxation if the country of registration grants an exemption to US flag vessels and US registered aircraft.

Consequence of Alaska Supreme Court Decision

ALL NON-US CORPORATIONS WHICH OPERATE FOREIGN FLAG VESSELS AND/OR FOREIGN REGISTERED AIRCRAFT CALLING AT ALASKAN PORTS/AIRPORTS ARE SUBJECT TO TAXATION UNDER ANITA. THEIR WORLDWIDE NET INCOME CAN BE TAXED IN PROPORTION TO THE TIME SPENT AT A PORT/AIRPORT IN ALASKA.

Except for North Slope oil, all seaborne Alaska exports (coal, timber, fish, ore & ore concentrates, gravel) to foreign destinations move in foreign flag vessels owned by non-US corporations. In the absence of restoring via statute the 883 exemption, the worldwide net income of the non-US corporate owners of these foreign flag vessels will become subject to taxation under ANITA.

This would be a new tax. Alaska would be the only state which assesses such a tax. While the federal government cannot dictate State taxation policy, such a new tax would violate federal trade treaties with Alaska's most important trading partner² Japan. Sub national governments in foreign countries could impose income taxes on US corporations not now subject to taxation without violating treaties with the US.

The Alaskan consumer (imported goods) and the Alaskan producer (exported goods) would pay for this new tax in higher freight rates. Depending on specific circumstances, this new tax could kill an existing export deal or cause a potential export deal to be stillborn. Alternatively, depending on specific circumstances, imposition of this new tax

TESTIMONY OF ROBERT B. STILES
BEFORE THE ALASKA HOUSE LABOR & COMMERCE COMMITTEE
March 30, 1998

could create additional collection and audit costs and result in no new revenue being collected.

I would question whether, in enacting and/or modifying ANITA, it was ever the legislature's intent to attempt to impose corporate income taxes on the foreign owners of foreign flag vessels or foreign registered aircraft. Nor do I believe that it is an unstated policy of the current administration to attempt to tax foreign owners of foreign flag vessels or foreign registered aircraft. I do believe that the Alaska Supreme Court had no idea of the potential consequences of their opinion. The net result is that the Alaska Supreme Court was in effect setting policy rather than interpreting law.

HB 472 is a simple, clear and unambiguous statement that it is not the policy of the State of Alaska to impose corporate income taxes on foreign owners of foreign flag vessels or foreign registered aircraft.

In the absence of enactment of such a bill, Alaska:

- Will have the dubious distinction of being the only state in the United States to attempt to tax entities that even the federal government does not tax.
- Sends a clear message that Alaska can't be trusted to abide by international trade treaties executed by the federal government.
- Add to the cost of foreign goods imported to Alaska and the cost of goods exported from Alaska.
- Would impose a new tax in the absence of any understanding of the revenue production potential, cost of administration, or probable consequences.
- Has the potential of severely effecting economic viability of existing resource export deals and possibly destroying the economic viability of developing resource export deals.

Thank you for the opportunity to present this testimony and I respectfully request that the Alaska Legislature address this important problem by passing HB 472 at the earliest possible date.

To use the words of an Assistant Commissioner of Revenue the State's action with regard to taxation of foreign flag vessels is "all over the Internet". It is only by decisive action by this legislature that the damage to Alaska's image as "open for business" can be minimized.

ALASKA STATE LEGISLATURE

House of Representatives

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Labor and Commerce Committee

SPONSOR STATEMENT HOUSE BILL 472

"An Act relating to apportionment of business income; and providing for an effective date."

This bill originated at the request of the industries effected by the recent Alaska Supreme Court ruling, *State of Alaska vs OSG BULK Ships, Inc.*, dated February 20, 1998, that the Alaska Corporation Net Income Tax ("ANITA") applies to the income of foreign flagged ships and aircraft bringing goods and passengers to and from Alaska.

This new tax burden will have a chilling effect on commercial development, international trade and job creation in this state. It will slam the door on the myth that "Alaska is open for Business". If the Department of Revenue implements this new tax, Alaska would be the only state to have such a tax.

The court held that the exemption from taxation granted in 26 U.S.C. Section 883 "is impliedly excepted to [or modified] by the ANITA" (italics added). The Legislature adopted Section 883 when it enacted AS 43.20.021 (a) "Sections 26 U.S.C. 1-1399 and 6001-7872 (Internal Revenue code), as amended, are adopted by reference...", (See the bill.). The Court found otherwise.

The issue for the Legislature and the Administration can be posited as: Should the public policy of the State of Alaska be to tax the net income of foreign flagged/owned ships, aircraft, railroad rolling stock and communication satellites contrary to the tax law of the United States and it's agreements with foreign governments engaged in commerce in our state?

A strong indication that the Legislature intended to adopt Section 883 without exception is evident by the rejection of legislation sought by the Department of Revenue in 1991-1992. This legislation specifically stated that Section 883 was not adopted into Alaska tax law.

Commerce of the state of Alaska will be severely impacted without passage of HB 472. The following business sectors would be directly taxed; subject to foreign retaliation or secondarily effected: international air cargo, air couriers, and airlines; fishers and seafood processors; mining and coal companies; cruiseship lines and tourism; timber and wood products; manufacturing firms; and oil and LNG exports.

The imposition of a new business tax, for an as yet unknown amount, will have a detrimental effect on the business and employment of Alaskans.

RECEIVED
ALASKA DEPARTMENT OF REVENUE

APR 6 1998

MEMORANDUM

COMMISSIONER'S OFFICE

State of Alaska
Department of Law

TO: Deborah Vogt
Deputy Commissioner
Alaska Department of Revenue

DATE: April 6, 1998

FILE:

TEL NO.: 465-3600

FROM: Stephen C. Slotnick *SCS*
Assistant Attorney General

SUBJECT: Retroactive repeal of taxes

You have asked about the constitutionality of retroactivity provisions in HB 472 and SB 345. Both of these bills provide an exemption from tax for certain foreign corporations. Under current law, these corporations would not be entitled to this tax exemption. Although we have not had time to exhaustively research this question, we conclude that retroactive application of this exemption probably violates the public purpose clause of the Alaska Constitution.

DISCUSSION

Article IX, Section 6 of the Alaska Constitution provides that "[n]o tax shall be levied or appropriation of public money made, or public property transferred, nor shall the public credit be used, except for a public purpose."

In general, prospective application of a tax credit or exemption is entirely consistent with the public purpose clause. Tax exemptions and credits are usually intended to stimulate the economy and promote development. Certainly, to qualify for the credit or exemption the taxpayer will have to earn some income in the state. By adopting a prospective tax credit, the legislature necessarily has found a public purpose, and courts will not second guess these reasonable legislative findings. *DeArmond v. Alaska State Development Corp.*, 376 P.2d 717, 721 (Alaska 1962).

Retroactive application of a tax exemption or credit, or retroactive repeal of a tax, on the other hand, presents a different question. In this case, the adoption of a retroactive repeal resembles an appropriation to individual taxpayers. The liability created by the tax has resulted either in money being paid to the state treasury or in a debt to the state. In either case, the right to the money has clearly vested in the state. Moreover, the rationale of encouraging future investment or industry in the state is clearly

Deborah Vogt
Deputy Commissioner
Re: Retroactive repeal of taxes

April 6, 1998
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absent—the taxpayer will have already earned income in the state which has accrued a tax liability.

No Alaska case of which we are aware addresses this issue. Two previous Attorney General Opinions, however, have discussed the question, and concluded that in most circumstances, a retroactive tax repeal would violate the Alaska Constitution. *See* 1980 Inf. Op. Att'y Gen. (663-81-0215; 663-81-0187; Sept. 22) (retroactive repeal of income tax for 1978 and earlier would violate public purpose clause, but retroactive repeal for 1979 would serve public purpose because it would fulfill promise of earlier unconstitutional legislation that had repealed or diminished tax liability); 1980 Inf. Op. Att'y Gen. (J-66-160-81; Nov. 19, 1980) (proposed retroactive exemption of nonresident commercial airline employees from state income tax would violate public purpose clause, even though tax had not been collected and was unexpected because of employer's failure to withhold). Both of these opinions acknowledge that a retroactive repeal of a tax is constitutional where it serves an overriding public purpose, such as discharging a "moral obligation."

The September 22 opinion found such a moral obligation for tax year 1979. For that tax year, the legislature had, in 1979, adopted exemptions to tax that would have eliminated or significantly diminished the state income tax liability for most individuals. These exemptions were later held unconstitutional, thus restoring full tax liability for all taxpayers. *See Williams v. Zobel*, 619 P.2d 422 (Alaska 1980). Because many taxpayers had a reasonable expectation that they would not have to pay tax for 1979, and others reasonably expected a diminished tax liability, the opinion concluded that the state had a "moral obligation" to meet the expectations that it had raised. Accordingly, the repeal was found to have a public purpose.

Given our limited time, we have reviewed only a few cases from other jurisdictions on this question. These cases have supported the conclusion reached by the two Attorney General Opinions. The general rule is that retroactive tax repeals do not serve a public purpose. *Estate of Austin v. Austin*, 254 Cal. Rptr. 372, 374 (Cal. App. 4th 1988) ("The repeal of these provisions cannot be applied retroactively, for to do so would effect a prohibited gift of state funds."); *In re Estate of Skinker*, 303 P.2d 745, 748-49 (Cal. 1956) ("Where a tax has become due, a subsequent act of the Legislature reducing the tax by reason of the change in the exemptions, tax rates, or for that matter in any way, is held to be a gift of state monies and is prohibited by article IV, section 31 of the California Constitution."); *Wilentz v. Hendrickson*, 38 A.2d 199, 205-06 (N.J. Ct. of Errors and Appeals 1944) (legislation providing forgiveness of delinquent interest on back taxes is unconstitutional as an appropriation of public money for private purpose

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because it is not supported by a legal, equitable or moral consideration).¹ In some circumstances, however, a public purpose is found to justify retroactive reductions of tax liability. *E.g., Japan Line, Ltd. v. McCaffree*, 558 P.2d 211, 214 (Wash. 1977) (retroactive repeal of a property tax is not unconstitutional gift of state resources where tax has been replaced by an excise tax); *State ex rel. Adams v. County Com'rs of Fairfield County*, 121 A. 800, 803 (Conn. 1923) (principles of equity and fair dealing support constitutionality of Act providing for refund of fees for liquor licenses after selling of liquor became illegal).

The question here is whether the facts of this tax repeal create a "moral obligation" sufficient to justify applying the tax repeal retroactively. In our view, a court is unlikely to find such a moral obligation.

Here, the proposed legislation would allow certain taxpayers to claim an exemption. The taxpayers who would qualify for the exemption are those who would be exempt under IRC § 883—foreign corporations with income from ships or airplanes whose country of origin provides a similar exemption for United States corporations. Most of the taxpayers eligible for this federal exemption have not been reporting their 883 income to the Department or paying tax on their 883 income under the Alaska Net Income Tax Act for many years. Although the Department of Revenue has considered this income taxable, it has been unclear whether section 883 was incorporated into the Alaska Net Income Tax Act. Given that 883 income has not been reported to the Department, only in isolated cases has the Department been able to audit returns and issue assessments requiring payment of tax on that income.

In the 1980s, the Department pursued an enforcement action regarding its interpretation of section 883 in a series of assessments against a taxpayer that included foreign shipping corporations in its unitary business. The Alaska Supreme Court recently

¹ One state court has held that the limitation on legislative power to retroactively reduce tax liability "does not apply before the taxes have been collected." *Seattle-King County Council of Camp Fire v. Dep't of Revenue*, 711 P.2d 300, 303 (Wash. 1985). This result is not consistent with the other cases that we have found, and appears to be based on the language of Washington's constitution, which is different from Alaska's. Moreover, we do not find this reasoning persuasive. We think Alaska's courts are more likely to follow the California Supreme Court's opinion that "[t]he Legislature cannot by a subsequent act increase or decrease the rate, remit the tax, or in any way surrender, impair or limit rights that have become fixed." *Skinker*, 303 P.2d at 748.

Deborah Vogt
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Page 4

affirmed the Department's position that section 883 was not incorporated into the Alaska Net Income Tax Act. *State v. OSG Bulk Ships*, __P.2d__, Op. No. 4951 (Alaska Supreme Court, Feb. 20, 1998). Thus, it is now clear that 883 income is taxable under the Alaska Net Income Tax Act. In response, the legislature is proposing to adopt legislation reversing the outcome of the *OSG* decision, and allowing foreign corporations to claim the 883 exemption on their Alaska returns.

We recognize that the taxpayers other than OSG are likely to assert that the state has a moral obligation to retroactively apply the tax exemption to them. They will assert that they did not have an expectation that they owed this tax. They will bolster this argument by pointing out that Alaska's position is unique: other states have incorporated the 883 exemption into their tax codes.

Although we understand the taxpayers' arguments, we do not think a court will find them persuasive. The court does not view itself as "making" law; in its view, the court merely "finds" the law. Thus, the law has always been that the 883 exemption is not incorporated into the Alaska Net Income Tax Act. Taxpayers are charged with knowledge of the law. Thus, even when the prevailing understanding of the law changes as a result of an enforcement action, courts are not likely to acknowledge an expression of surprise by taxpayers.

The reason for this interpretation is driven home by the very facts of this case. Enforcement of tax laws begins with a self-report by the taxpayers. Here, most taxpayers affected by the 883 exemption have never reported any 883 income to Alaska. Had they reported this income in the first place, the Department could have initiated an enforcement action years ago that would have put them on notice as to the correct interpretation of the law. The taxpayers' failure to report cannot be used as a grounds to justify a "reasonable expectation" that they would not owe the tax.²

Moreover, in these circumstances, it is difficult for taxpayers to claim that they had a reasonable expectation that the tax would not be due. Here, Commissioner of Revenue Daryl Rexwinkel issued a formal hearing decision in the *OSG* case on June 16, 1993. The decision became public when the taxpayer appealed to the superior court.

² We understand that 883 income has been assessed against taxpayers other than OSG and that, in at least one case, the assessment has been paid. Furthermore, we understand that some taxpayers with 883 income have filed returns for past years, and that those years are now closed.

Deborah Vogt
Deputy Commissioner
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Page 5

This put the taxpayers and, indeed, the world, on notice as to the correct interpretation of the law.³ Although the superior court reversed the Department, the Department appealed to the Supreme Court. Further, an organization that represents many taxpayers, the North West CruiseShip Association, participated in both the superior court and supreme court as amicus curiae. Clearly, many, if not all, taxpayers had actual notice of the tax liability.

Finally, we are aware of the argument that a retroactive exemption serves a public purpose because it demonstrates that Alaska is "open for business." We acknowledge that this is a legitimate legislative objective as to prospective exemptions and credits. Applied retroactively, however, such a justification would swallow the public purpose rule. Any appropriation of funds from the state treasury to a business or industry could arguably be justified on the grounds that it demonstrates that Alaska is open for business. Cf. 1980 Inf. Op. Att'y Gen. (Sept. 22) (rejecting argument that income tax refund serves a public purpose because it would "stimulate the economy" on grounds that, although true, this argument would apply to any appropriation of public funds). A retroactive tax exemption that forgives a liability owed to the state is the equivalent of a direct appropriation, and cannot be made unless it serves a public purpose.

CONCLUSION

We conclude that the retroactive tax exemption proposed in HB 472 and SB 345 is equivalent to an appropriation of public funds for private purpose. Applying this exemption retroactively is likely unconstitutional under Article IX, Section 6 of the Alaska Constitution.

SCS:bm

³ Furthermore, in 1991 Governor Hickel issued a transmittal letter in support of HB 329 which gave notice of the state's conclusion that IRC § 883 was not incorporated in Alaska law.



INTERNATIONAL AIR TRANSPORT ASSOCIATION

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(2 Pages)

Honourable Mark Hanley
Co-Chair, House Finance Committee
Alaska House of Representatives
State Capitol, Room 507
Juneau, Alaska 99801-1182
United States of America

6 April 1998
Ref: 044/98

Re: House Bill No. 472

Dear Representative Hanley,

On behalf of the International Air Transport Association (IATA), the trade association comprised of 256 member airlines from over 150 countries, I wish to express the strongest support for House Bill No. 472. HB 472 would ensure that the income of non-U.S. airlines serving Alaska would be exempt from the state's income tax in accordance with U.S. Internal Revenue Code Section 883.

IATA is deeply concerned with the potentially far-reaching ramifications of the recent Alaska Supreme Court decision in *Alaska v. OSG Bulk Ships, Inc.* Indeed, it is our understanding that on the basis of this decision, the Department of Revenue plans to levy the Alaska corporate income tax on the income derived by non-U.S. airlines from the operation of their aircraft in international traffic.

It is widely known that U.S. IRC Section 883 exempts the income of non-U.S. airlines at the federal level on the basis of reciprocity. These reciprocal exemptions are generally embodied in numerous U.S. treaties for the avoidance of double taxation. IATA firmly believes that U.S. IRC Section 883 is intended, *inter alia*, to eliminate the risk of multiple taxation of the income derived by the aircraft of both U.S. and non-U.S. airlines in international traffic.

If the State of Alaska chooses not to adhere to the reciprocal tax exemption provisions of U.S. IRC Section 883, non-U.S. airlines will be exposed to double (and even multiple) taxation, as they are already subject to national (and often local) income taxes in their respective countries of domicile. Furthermore, one immediate consequence of this tax

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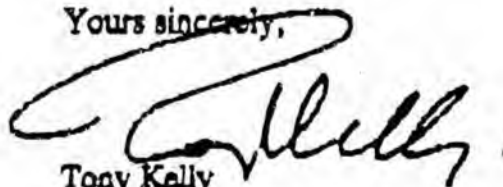
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reatment of non-U.S. airlines will be the exposure of U.S. airlines to the reciprocal
nposition of similar taxes in the many foreign jurisdictions which they serve. Ultimately,
ne intricate worldwide network of reciprocal tax regimes will be seriously jeopardized.

.ATA also believes that any imposition of an income tax on the international operations of
the non-U.S. airlines serving Alaska would ignore the taxes and charges already paid by
them for their local operations as well as the significant direct and indirect contributions they
make to the economy of the state. We believe that SB 345 sends a strong signal to the
international airline community that the State of Alaska encourages their business on the
basis of long-established international tax practice.

Based upon the foregoing, IATA strongly urges you to take all necessary steps to ensure the
passage of Senate Bill No. 345.

Yours sincerely,



Tony Kelly
Director
Industry Monetary Affairs

CADWALADER

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New York
Washington
Los Angeles
Charlotte
London

April 3, 1998

BY FACSIMILE

Mr. Joe Kyle
Executive Director
Alaska Steamship Association
234 Gold Street
Juneau, Alaska 99801

Re: Potential Retaliatory Impact on U.S. Carriers Abroad of State
Taxation of Foreign Carriers

Dear Mr. Kyle:

You have asked me to describe the retaliatory impact abroad on U.S. shipping and air transport companies that could occur if a U.S. state or locality were to impose state or local income taxation on foreign shipping and air transport companies that are not subject to U.S. federal income taxation as a result of U.S. income tax treaties with foreign countries.

We are not aware of any U.S. state or locality that currently subjects to state or local taxation the income of foreign carriers that are eligible for the benefits of reciprocal shipping income agreements. Under such agreements, foreign countries exempt U.S. carriers from foreign tax if the United States reciprocally exempts foreign carriers from U.S. tax. U.S. income tax treaties or other agreements with over 70 countries provide such reciprocal exemptions. However, if state or local income taxes were to be imposed on foreign carriers by *even one* U.S. state or locality (as the State of Alaska currently is considering doing), retaliation by foreign jurisdictions would be permitted under U.S. income tax treaties, as discussed below.

For example, under the income tax treaties that the United States has entered into with Japan, Italy, and France, each country exempts from its national

Mr. Joe Kyle

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April 3, 1998

income tax the income derived by a resident of the other jurisdiction from the operation of ships or aircraft in international traffic.¹ Moreover, through exchanges of diplomatic notes, these foreign nations also exempt the income of U.S. shipping and air transport companies from local taxes, such as the enterprise tax in Japan,² the "ILOR" in Italy,³ or the "taxe professionnelle" in France,⁴ provided that no state, county, or local government in the United States levies an income tax on shipping and air transport companies resident in such countries. So, for example, if no U.S. state or locality taxes the income of a Japanese shipping and air transport company, a U.S. shipping and air transport company that moves cargo between the United States and Japan would pay only U.S. federal, state, and local income taxes because it would be exempt from Japanese national and local income taxes. Similarly, a Japanese shipping or air transport company moving cargo between Japan and the United States would be exempt from U.S. federal, state and local income taxes and would only pay Japanese national and local income taxes. Although Congress has not enacted a statute or entered into a treaty that would require the states to exempt non-U.S. shipping and air transport companies from state and local income taxes, the U.S. Departments of State and Treasury have actively enlisted the cooperation of the U.S. states and localities in advancing this policy. For example, in recent years both the States of New York and New Jersey contemplated taxing foreign carriers. State and Treasury Department officials had discussions with tax officials from those states, encouraging them not to tax foreign carriers because of the retaliatory impact such taxation could have on U.S. carriers abroad. Both New York and New Jersey decided not to impose their taxes on foreign carriers.

If any U.S. state or locality (e.g., Alaska) were to tax the income of shipping and air transport companies residing in, Japan, Italy, or France, the equivalents of states or localities in those countries could then impose their taxes on U.S. shipping and air transport companies. To illustrate, in the 1971 exchange of diplomatic notes, the Japanese government stated that if a U.S. locality were to levy an income tax on Japanese shipping and air transport companies, the Japanese government would "take necessary measures" to let local Japanese authorities levy the Japanese enterprise tax on all U.S. shipping and air transport companies. Therefore, regardless of whether it is a resident of the state or locality that initially imposed the income tax on Japanese shipping and air transport companies, a U.S. shipping or air transport company that moves cargo or passengers between the

¹ Income Tax Convention, March 8, 1971, U.S.-Japan, Article 10. Income Tax Convention, April 17, 1984, U.S.-Italy, Article 8(1). Income and Capital Tax Convention, August 31, 1994, U.S.-France Article 8(1).

² Exchange of Notes, March 8, 1971, U.S.-Japan.

³ Exchange of Notes, April 17, 1984, U.S.-Italy.

⁴ Exchange of Notes, August 31, 1994, U.S.-France.

Mr. Joe Kyle

-3-

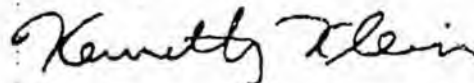
April 3, 1998

United States and Japan could become required to pay local Japanese income taxes in addition to its U.S. income taxes, although the company would still be exempt from the Japanese national income tax. The corresponding Japanese shipping and air transport company would similarly pay U.S. state and local income taxes in addition to its Japanese income taxes. Similar provisions are included in the exchanges of diplomatic notes with Italy and France.

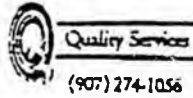
While Japan, Italy, and France have formal agreements with the United States in this regard, we understand that informal agreements of a similar nature exist with many other of the 70 countries which provide reciprocal exemptions to U.S. carriers. Thus, the taxation of foreign carriers by Alaska could directly result in retaliatory taxes being imposed on U.S. carriers in a number of foreign jurisdictions.

If I can provide you with additional information in this regard, please let me know.

Sincerely,



Kenneth Klein



Date FEB 21 1998
Anchorage
Daily News

Client No. 0396

Shipping firm loses tax battle

State's tax act valid, unanimous court says

By ROSANNE PAGANO
The Associated Press

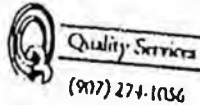
ANCHORAGE — A New York-based shipping corporation whose tankers play a key role in moving North Slope oil to market must pay additional state taxes under terms of an Alaska Supreme Court ruling that observers say could reach other industries.

In a unanimous ruling Friday, the court said Alaska did not err in assessing additional taxes against Overseas Shipping Group based on the Alaska Net Income Tax Act.

In 1993, when a lower court ruled in OSG's favor, back taxes amounted to \$789,000.

The case asked the Supreme Court to compare Alaska's tax system with the federal system for exemptions that OSG said would bar the Revenue Department from collecting ad-

Please see Page B-4, TAX CASE



Date **FEB 21 1998**
Anchorage
Daily News

TAX CASE: Alaska Supreme Court rules against shipping company

Continued from Page D-1

ditional taxes. The case reached the Supreme Court after Superior Court Judge Donald Hopwood ruled in the shippers' favor and the state appealed.

Filing friend-of-the-court briefs to buttress OSC's arguments were the Seattle-based North West CruiseShip Association and the Alaska Visitors Association.

Dan Grausz, a lawyer for Holland America Line Westours, whose vessels deliver thousands of tourists to Alaska each season, said the ruling could increase the industry's state tax burden.

"This was not purely a shipping issue," Grausz said Friday. "I think it extends far beyond the cruise ship industry to airlines and to others who

potentially fall within this provision."

Neil Slotnick, a state assistant attorney general who handled the case, said he also believed that cruise ships and air carriers could be subject to the ruling. "It could have much wider implications," he said.

Neither the state nor the cruise ship association had an immediate estimate as to how much the state could realize in additional taxes under the court opinion. Grausz said the association was considering its options, including asking the Supreme Court to reconsider.

Mike Young, a Seattle-based lawyer for OSC, said Friday he had yet to talk with his clients and did not know what their next step might be.

"I'm very disappointed in the rul-

ing," Young said. "I believe their conclusion is wrong."

The case hinged on Alaska's apportionment method of collecting its share of taxes from multinational businesses. The system, which takes into account a taxpayer's property, payroll and sales, compares a company's Alaska-based activity with its worldwide activities to come up with a fraction of income subject to Alaska income tax.

The federal government follows a so-called "sourcing" approach, which exposes income to U.S. taxes depending on where money was earned. Income that cannot be traced to a company's domestic operations is deducted from gross income and is not subject to U.S. taxes.

The systems are aimed at avoiding multiple taxes on the same in-

come. In the OSC case, the Supreme Court was forced to compare state and federal approaches because Alaska tax law incorporates sections of the federal code and Multistate Tax Compact while providing for exceptions and modifications.

The shipping group argued that its foreign income should be exempt from state taxes, based on its interpretation of Alaska exceptions.

But Justice Robert Eastaugh dismissed that argument, saying it was "inconsistent" with Alaska's apportionment system and would result in understating the company's taxable Alaska income.

The Revenue Department is seeking to collect additional taxes from 1979 through 1983, 1985 and 1986, and 1988.

WHY PASS HOUSE BILL 472?

Tax is Bad for Alaska

With the price of oil in the \$10 a barrel range and with Asian markets down, this is a particularly bad time to increase business taxes. Increasing the cost of moving our resources to market will have a serious negative impact on Timber, Milling, Fishing, Gas Exports, Tourism, Airport Development and a host of Support and Supply industries.

The impact of this tax will be borne by Alaskans, not foreign corporations. The tax will translate to higher transport fees or lower purchase prices for Alaskan resources. With the significant downturn in the Asian economies, Alaska's resource industries cannot afford increased shipping costs or lower market prices.

Detriment to New Investment

An aggressive move to tax business income not only impacts the industries directly subject to the tax but also sends a negative message to prospective investors. A message that Alaska will seek to raise taxes on businesses before it considers other options will deter rather than encourage investment.

Foreign air and sea carriers will have incentive to move away from Alaska to jurisdictions that don't impose the tax. A mixed message will be sent in relation to the gas pipeline, with efforts to establish tax breaks on one hand while increasing costs on the other.

Tax Policy Inconsistent with International Agreements

The purpose of section 883 is not only to prevent the double taxation of foreign income but to insure that income earned by U.S. companies is not taxed in other nations. Section 883 upholds a logical concept in international trade.

It says foreign companies doing business in the United States won't be taxed in the United States so long as the countries the foreign companies come from don't tax U.S. companies doing business there. These reciprocal tax agreements on the taxation of air and shipping income are in place between the United States and many other nations.

When a state or local government in the United States imposes a new tax on foreign international air and sea carriers, it exposes U.S. international shipping companies to the triggering of retaliatory taxes in other countries.

Recently, the states of New York, New Jersey and California rescinded their efforts to impose similar taxes. Alaska will be the ONLY state in the Union to impose a tax on international foreign air and sea carriers if it proceeds.

26 USC 883**§ 883. Exclusions from gross income**

- (a) Income of foreign corporations from ships and aircraft

The following items shall not be included in gross income of a foreign corporation, and shall be exempt from taxation under this subtitle:

- (1) Ships operated by certain foreign corporations

Gross income derived by a corporation organized in a foreign country from the international operation of a ship or ships if such foreign country grants an equivalent exemption to corporations organized in the United States.

- (2) Aircraft operated by certain foreign corporations

Gross income derived by a corporation organized in a foreign country from the international operation of aircraft if such foreign country grants an equivalent exemption to corporations organized in the United States.

- (3) Railroad rolling stock of foreign corporations

Earnings derived from payments by a common carrier for the use on a temporary basis (not expected to exceed a total of 90 days in any taxable year) of railroad rolling stock owned by a corporation of a foreign country which grants an equivalent exemption to corporations organized in the United States.

- (4) Special rules

The rules of paragraphs (5), (6), and (7) of section 872(b) shall apply for purposes of this subsection.

- (5) Special rule for countries which tax on residence basis

For purposes of this subsection, there shall not be taken into account any failure of a foreign country to grant an exemption to a corporation organized in the United States if such corporation is subject to tax by such foreign country on a residence basis pursuant to provisions of foreign law which meets such standards (if any) as the Secretary may prescribe.

- (b) Earnings derived from communications satellite system

The earnings derived from the ownership or operation of a communications satellite system by a foreign entity designated by a foreign government to participate in such ownership or operation shall be exempt from taxation under this subtitle, if the United States, through its designated entity, participates in such system pursuant to the Communications Satellite Act of 1962 (47 U.S.C. 701 and following).

- (c) Treatment of certain foreign corporations

- (1) In general

Paragraph (1) or (2) of subsection (a) (as the case may be) shall not apply to any foreign corporation if 50 percent or more of the value of the stock of such corporation is owned by individuals who are not residents of such foreign country or another foreign country meeting the requirements of such paragraph.

- (2) Treatment of controlled foreign corporations

Paragraph (1) shall not apply to any foreign corporation which is a controlled foreign corporation (as defined in section 957(a)).

- (3) Special rules for publicly traded corporations

- (A) Exception

Paragraph (1) shall not apply to any corporation which is organized in a foreign country meeting the requirements of paragraph (1) or (2) of subsection (a) (as the case may be) and the stock of which is primarily and regularly traded on an established securities market in such foreign country, another foreign country meeting the