

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

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We estimate that such a level of savings, if generated, would have a dcf value after tax and acquisition charges of around US\$5 billion, compared to the implied premium for ARCO of US\$5.6 billion. Although the value of the initial cost savings appears lower than the premium being paid, the annual upside from synergy benefits between the two companies could ultimately exceed US\$1 billion significantly.

The majority of the savings in E&P

More than 70% of the cost savings are expected to come from upstream operations, where a closer focus on exploration spending is expected to yield around US\$350 million in annual savings. Elsewhere, US\$110 million of cost reduction is expected in the downstream businesses, while elimination of a second head office will contribute to corporate cost savings estimated at US\$180 million. In total, the deal is expected to result in around 2,000 job losses.

Figure 11. BP Amoco — Annual Pre-Tax Synergy Benefits from the ARCO Transaction (US\$ Millions)

E&P: Alaska	200	Organisational Efficiencies	300
E&P: Rest of World	510	Reduced Exploration Spend	350
Refining and Marketing	110	Business Processes/IT	180
Corporate	180	Operational Rationalisation	170
Total	1000		1000

Sources: Company reports and Salomon Smith Barney estimates.

Per-share effects: earnings dilution from transaction goodwill, but cash flow enhanced

ARCO on much lower P/CFs than BP Amoco

At current share prices, BP Amoco and ARCO trade on similar 2000 P/E multiples of around 20-22 times, based on our SSB official crude price estimates. However, ARCO's prospective price/cash flow multiple of 7 times is considerably lower than BP Amoco's 10.5 times.

US\$1.25bn pa of goodwill charges

Because the transaction is treated as a purchase under UK GAAP, it will result in a write-up of ARCO's assets of the order of US\$19 billion. In addition, goodwill is expected to be amortised at a rate of around US\$1.25 billion per annum. BP Amoco intends to report its net income after goodwill charges, but also to restate the figures excluding the asset write ups and goodwill charges, for comparison with the peer group companies.

Figure 12. BP Amoco — Goodwill on ARCO Purchase

ARCO book value per share, \$	21.5
Current implied offer price, \$	78.9
Current premium over book value per share, \$	57.4
Offer price/book value	3.7
Implied Asset Write-Up, \$m	18722
Annual goodwill charge over 15 yrs, \$m	1248

Sources: Company Reports and Salomon Smith Barney estimates.

EPS diluted after goodwill

Based on the US\$1 billion of projected cost savings but before goodwill charges, we estimate that the deal would be accretive to BP Amoco's EPS by around 2% in 2000, rising to around 5% in 2001. However, after goodwill charges we estimate EPS dilution of approximately 12% in 2000, falling to some 7% in 2001.

*CFPS enhanced
from year 1*

As a result of the substantial difference in cash flow valuations between the two companies, we believe the transaction will immediately enhance cash flow per share from 2000. Our estimates indicate a healthy level of CFPS accretion of around 7% in 2000 and 2001.

Figure 13. BP Amoco — ARCO: Provisional Pro Forma Estimates, 1998-2001E

	1998	1999E	2000E	2001E
BP Amoco				
Earnings, \$bn	4502.6	5400.0	7512.0	9343.0
Cash Flow, \$bn	9231.0	10893	14550	17451
ADSs Outstanding	1,614	1,614	1,581	1,544
EPS Pre-Merger	\$2.79	\$3.35	\$4.75	\$6.05
CFPS Pre-Merger	\$5.72	\$6.75	\$9.20	\$11.30
ADS Price, \$	\$98.25			
P/E	34.5	28.8	20.3	15.9
P/CF	16.8	14.3	10.5	8.5
ARCO				
Earnings, \$m	551	686	1102	1416
Cash Flow, \$m	2949	2845	3397	3779
Shares Outstanding	326	326	326	326
EPS Pre-Merger	\$1.69	\$2.10	\$3.35	\$4.30
CFPS Pre-Merger	\$9.05	\$8.70	\$10.30	\$11.45
Share Price, \$	\$73.63			
P/E	43.6	35.1	22.0	17.1
P/CF	8.1	8.4	7.1	6.3
BP-Amoco/ARCO: 100% Credit for Cost Savings				
BPA ADSs per ARCO share	0.82	0.82	0.82	0.82
New BPA ADSs	267	267	267	267
Total BPA ADSs	1881	1881	1849	1812
Rationalisation Benefits Pre-Tax, \$m			500	1000
Rationalisation Benefits Taxed @ 30%			350	700
Goodwill Amortisation charge Post tax			(1250)	(1250)
Pro forma Results, \$m				
Net Income, \$m Pre Goodwill Charge			8964	11459
Net Income, \$m Post Goodwill Charge			7714	10209
Cash Flow, \$m			18372	21859
Per Share Amounts, \$				
EPS Pre Goodwill Charge			\$4.85	\$6.33
EPS Post Goodwill Charge			\$4.17	\$5.63
CFPS			\$9.94	\$12.07
Accretion (Dilution), %				
EPS Pre Goodwill Charge			2%	5%
EPS Post Goodwill Charge			(12%)	(7%)
CFPS			7%	7%
Prospective Multiples				
P/E			19.9	15.2
Adj P/E			23.1	17.1
P/CF			9.7	8.0

Sources: Company reports and Salomon Smith Barney estimates.

*Still cash flow accretive
if half the savings are
competed away*

The analysis above assumes that the company retains 100% of the cost savings. However, we have also estimated pro forma earnings and cash flows under another scenario whereby 50% of the cost reduction is competed away in the market. Under this scenario, the earnings dilution after goodwill charges rises to 14% in 2000 and 10% in 2001. However, we still see cash flow accretion of the order of 6% in 2000 and 2001.

Figure 14. BP Amoco/ARCO — Assuming 50% of Cost Savings Competed Away

	2000	2001
Pro forma Results, \$m		
Net Income, \$m Pre Goodwill Charge	8789	11109
Net Income, \$m Post Goodwill Charge	7539	9859
Cash Flow, \$m	18197	21509
Per Share Amounts, \$		
EPS Pre Goodwill Charge	\$4.75	\$6.13
EPS Post Goodwill Charge	\$4.08	\$5.44
CFPS	\$9.84	\$11.87
Accretion (Dilution), %		
EPS	0%	1%
EPS Post Goodwill Charge	(14%)	(10%)
CFPS	6%	6%
Prospective Multiples		
P/E	20.2	15.7
P/CF	9.8	8.1

Sources: Company Reports and Salomon Smith Barney estimates.

*Report ROACE back
down to around sector
average*

BP Amoco's return on average capital employed (ROACE) will also be adversely affected by the asset write-up and goodwill charges. We estimate a 2001 ROACE of 19.3% for BP Amoco alone, but a ROACE of just over 13% after allowing for accounting effects of the deal. This is broadly in line with the sector average.

*Valuation attractive
despite lower returns*

ROACEs have historically had relatively good correlations with companies' ratios of firm value/capital employed. BP Amoco looked good value on this basis prior to the deal, and it remains so. The reduction in reported ROACE is more than compensated by a sharply lower ratio of FV/CE. While the company's firm value should rise by around 19%, we estimate a 59% increase in its capital employed. This reduces its ratio of FV/CE from 3.0 to only 2.2 times.

*Underlying returns still
well above average*

Our calculations of underlying returns on average invested capital (ROAIC) exclude goodwill effects. On this measure, we still see BP Amoco's return amongst the highest of the integrated oils at around 15% for 2001.

Technical factors: UK Institutions' underweight position could get worse

*UK Institutions already
underweight BP Amoco*

The UK remains significantly underweight BP Amoco, a situation which has been the case since the Amoco merger. At the time of the merger, the new BP Amoco ADSs diluted UK institutions' holdings from a fairly neutral level of around 60% to below 40%. Since then, UK buying has raised this percentage once more, but only to a level of around 50%. We believe that increasing confidence over prospects for crude prices and the sector will force UK institutions to continue to weight up in the stock in the coming months. This technical buying is likely to continue to support the shares.

**ARCO could exaggerate
this situation**

The deal announced with ARCO will probably exacerbate the technical situation which already exists in UK institutions. As was the case with the Amoco merger, the substantial majority of new BPA shares will again go to US investors. We estimate that this could well see UK institutions having their proportional holding diluted once more to around 44%. In order only to redress the imbalance caused by the ARCO deal and bring weightings back to the pre-deal level of around 50%, this implies net UK institutional buying of around US\$12 billion of stock.

For UK institutions to have moved to a roughly neutral 60% weighting would have required further net purchases of the order of US\$15 billion even before allowing for the ARCO deal. Adding in this latest effect, a return to 60% weightings implies a massive US\$30 billion of net purchases.

Figure 15. BP Amoco — Ownership Distribution of BP Amoco (Approx %)

	BP %	BP Amoco 31/12/98 %	BP Amoco Current %	BP Amoco + ARCO %	BP Amoco Current \$bn	BP Amoco + ARCO \$bn
UK Institutional	62	38	50	43	78	78
UK Individual	7	4	4	3	6	6
US	16	48	37	45	57	82
IGO	6	4	4	3	6	6
Continental Europe	4	3	3	3	4	5
Other	6	3	3	3	5	5
	100	100	100	100	156	181

Sources: Company reports and Salomon Smith Barney estimates.

Figure 16. BP Amoco — Potential UK Net Buying of Stock

Neutral UK Institutional Weighting, % (approx)	60				
Pre-ARCO deal					
UK Institutional ownership (%)	60	55	50		
Implied UK buying of ADRs (m)	160	80	0		
Implied UK buying (\$bn)	15.4	7.7	0.0		
Including ARCO					
UK Institutional ownership (%)	60	55	50	45	43
Implied UK buying of ADRs (m)	314	220	126	32	0
Implied UK buying (\$bn)	30.2	21.2	12.1	3.1	0.0

Sources: Company reports and Salomon Smith Barney estimates.

The improving fundamentals of the crude market are aggravating this problem. At the start of 1999, many UK institutions adopted an underweight position by default simply by not increasing weightings post the Amoco merger. This decision was strongly influenced by the weak industry environment at the time. Despite the recent sector rally, we still see considerable upside over the coming months, and believe that the risks to being underweight the sector have increased substantially. Increasing confidence in the sector's prospects could not only lead to stronger buying pressure from underweight institutions but also increase the reluctance of existing shareholders to sell.

An even larger component of UK Indexes

BP Amoco is currently the UK's largest stock, a factor which leaves underweight institutions particularly exposed. The stock currently comprises 6.4% of the FTSE All Share Index and 7.9% of the FTSE 100. If the ARCO deal is completed under the terms indicated, these proportions would rise to 7.4% and 9.0% respectively. The proportion would have been even larger but for the dilutive effects of the recent Astra/Zeneca deal.

Another prospective deal, Vodafone/Airtouch, could dilute these index weightings somewhat further, but even allowing for this deal, we see the enlarged BP Amoco comprising around 7.2% of the All Share and 8.8% of the FTSE 100.

Figure 17. BP Amoco — Index Weightings (%)

	S&P 500	FTSE All Share	FTSE 100	FTSE All Share*	FTSE 100*	DJ STOXX Pan-Euro
ARCO	0.2	0.0	0.0	0.0	0.0	0.0
BP Amoco	0.0	6.4	7.9	6.2	7.6	2.8
BP Amoco post deal	0.0	7.4	9.0	7.2	8.8	3.3

* Diluted for effects of Vodafone/Airtouch.

Sources: Company reports and Salomon Smith Barney estimates.

Conclusions

The market may be slightly sceptical over BP Amoco's ability to successfully consummate such a deal so quickly after the Amoco merger. However, BP's (and now BP Amoco's) management have an excellent track record so far, which gives a good degree of confidence in the likelihood of success.

*Dilution effect
of some concern*

The dilution effect on reported EPS may be of some concern to investors, but we believe that from a valuation standpoint, the healthy accretion of per-share cash flow is more significant.

We continue to believe the sector has considerable further upside. BP Amoco remains one of our favourite stocks. Although the stock has performed very well, further strength in crude prices and technical UK buying should continue to push it further.

If crude prices do strengthen significantly, the deal with ARCO could prove to be well timed. ARCO's shares have recovered strongly in recent weeks, and jumped more than 10% on the announcement of talks. However, this has only brought them back to the relative level seen in early December. On balance, they have still underperformed the US market by more than 30% since the start of 1998.

There appears to be a good strategic fit between the two companies' operations, and the terms of the deal appear reasonable.

We are reiterating our 1L (*Buy, Low Risk*) investment code on BP Amoco.

8 April 1999

BP Amoco

Notes

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ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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UNITED STATES

International and Domestic Oil & Gas

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BP Amoco/ARCO

Earnings Dilutive/Cash Flow Accretive

- BP Amoco announced plans to acquire ARCO in an all-stock transaction. Under terms of the merger, 0.82 BPA ADS will be exchanged for each ARCO share. Hence, ARGO is \$6.00 below the terms of the merger. BPA/ARCO will be similar in size to Royal Dutch/Shell and smaller than Exxon Mobil.
- On the positive side:
 - 1) BPA/ARCO will be more oil sensitive; to the extent oil prices increase this could be a plus; 2) The deal will be cash flow accretive in 2000 and 2001 (5%-6%); 3) Stand-alone ARCO would have been free cash flow negative in 2000. BPA/ARCO will not be; 4) The combination should accelerate the potential development of Alaskan North Slope and Tangguh (Indonesia) gas.
- On the negative side:
 - 1) BPA/ARCO will likely be earnings dilutive by 10.5% (\$0.63 per share per year) owing to purchase accounting; 2) ROCE will decline from above peer to average ROCE.
- The deal should be positive for ARCO while earnings dilutive for BP Amoco.

United States

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Executive Summary

Following the announcement of the intended merger between BP Amoco and ARCO, we are reiterating our Outperform rating on ARCO and our Buy rating on BP Amoco. For BP Amoco, the resulting increased upstream exposure should place the company in a more favorable position. However, the financial impact of the dilution on earnings could counter some of the positive associated with higher upstream exposure. However, in the long term, BPA shares should be governed by longer-term fundamentals including oil prices.

BP Amoco will acquire ARCO in an all-stock transaction.

BP Amoco has signed a definitive agreement to acquire Atlantic Richfield Corp. (ARCO) in a stock-swap transaction. BP Amoco will exchange 0.82 ADS for each ARCO share. The transaction values ARCO at a 26% premium to its pre-acquisition rumor price (Friday, March 26).

Synergies could total \$1 billion per year.

BPA has announced total synergies from the merger of \$1 billion per year. There is virtually no overlap in the refining and marketing (R&M) businesses of the two companies, but there is scope for savings in the upstream operations, particularly in the Alaskan North Slope, where ARCO operates one half and BP operates the other half of the Prudhoe Bay oil field. Additional savings could come from their lower 48 and U.K. upstream operations and from corporate and administrative expenses.

The deal should be dilutive to earnings but Accretive to cash flow.

We estimate the acquisition to be dilutive on an earnings basis, but should be accretive on a cash flow basis by 2000. In addition, purchase accounting will have the effect of further diminishing BPA's previously stellar return on capital employed by both reducing earnings and increasing its capital employed.

Salomon Smith Barney is an advisor to ARCO in its pending merger with BP Amoco.

Key Points

Acquisition Description

BP Amoco has signed a definitive agreement to acquire ARCO in a stock-for-stock transaction. BP Amoco will exchange 0.82 ADS for each ARCO share. The transaction values ARCO at a 26% premium to its pre-acquisition rumor price (Friday, March 26). Based on the April 1 closing prices, the acquisition values ARCO at \$79 per share, which is still an 8% discount to ARCO's implied acquisition price. The merger is targeted to close toward the end of the year.

The merger will create a company with a size closely rivaling **Royal Dutch/Shell** but well short of the proposed **Exxon Mobil** combination. BP Amoco-ARCO's market capitalization would be \$185 billion, whereas the proposed Exxon Mobil would be \$250 billion. Its total hydrocarbon reserves of 18.7 billion BOE matches RD/Shell but is less than Exxon Mobil's 20.7 billion BOE. BP Amoco-ARCO's refining throughput will be less than half of Exxon Mobil's 6 MMB/D.

Figure 1. BPA, RD Shell, Exxon Mobil Comparison of Size

	BPA	Arco	BPA-Arco	RD Shell	XON-MOB
Market Capitalization (Billions of \$)	\$160.7	\$25.0	\$185.7	\$187.7	\$246.4
Capital Employed (Billions of \$)	\$56.6	\$14.9	\$71.5	\$71.7	\$80.8
1997 Reserves (MMBOE)	14,599	4,052	18,651	18,763	20,743
1998 Oil and Gas Production (MBOED)	3,050	1,002	4,052	3,664	4,272
1998 Refining Throughput (MB/D)	2,698	450	3,148	4,027	6,060
1998 Chemical Sales	\$9,691	\$0	\$9,691	\$12,272	\$14,949

Source: Salomon Smith Barney

Merger Synergies/Cost Savings

BPA has announced total synergies from the merger of \$1 billion per year. There is virtually no overlap in the R&M businesses of the two companies, which although lessening any potential anti-trust impediments, will limit the scope of cost savings from the merger. All of ARCO downstream assets are located on the West Coast, while BP Amoco's U.S. assets are concentrated east of the Rocky mountains (see table below). Given the lack of overlap we expected limited R&M savings from a merger between BPA and ARCO. BP Amoco has announced that it expects to save \$110 million (10% of total savings) from downstream operations.

Figure 2. Refining & Marketing by PADD District

U.S. DOMESTIC DOWNSTREAM Refining and Marketing by PADD's and Class of Trade							
	PADD1 (East Coast)	PADD2 (Mid West)	PADD3 (Gulf Coast)	PADD4 (Rocky Mts.)	PADD5 w/o CA (West Coast)	California (West Coast)	U.S. Volume MB/D
ARCO (ARC)							
Refining	0	0	0	0	201	238	439
Marketing	0	0	0	0	107	150	257
BP Amoco (BPA)							
Refining	57	623	688	52	0	0	1420
Marketing	270	462	201	25	0	0	957
BPA-Arco							
Refining	57	623	688	52	201	238	1859
Marketing	270	462	201	25	107	150	1214
XON-MOB							
Refining	0	219	1302	47	0	262	1830
Marketing	616	97	153	16	19	185	1087

Source: Salomon Smith Barney Estimates

There is scope for savings in the upstream, particularly in the Alaskan North Slope, where ARCO operates one half and BP operates the other half of the Prudhoe Bay oil field. The elimination of the overhead expense of one operator suggest the potential for some cost savings. However given the sizable cost cutting initiatives that the two companies have already set up in the North Slope, the potential for significant incremental cost savings from Alaska may be constrained. Nevertheless \$200 million or 20% of the \$1 billion of announced synergies is expected to come from Alaska. Upstream overlap in the lower 48, the Gulf of Mexico, and (to a lesser extent) the North Sea, as well as corporate overhead cost savings will provide other major sources of the cost savings. The transaction will result in 2000 job losses. The cost of merger implementation will total \$1 billion.

Figure 3. Potential Savings from Synergies (in MM's)

Alaska	\$200
Non-Alaska	\$510
Upstream	\$710*
Downstream	\$110
Corporate	\$180
Total	\$1,000

*1/2 of the upstream savings will come from lower exploratory expenses.

Source: Salomon Smith Barney & Company Data

BP Amoco/ARCO will have a commanding position in the Alaskan upstream sector and this could pose the greatest potential regulatory issue for the merger. The combined entity will control 75% of the oil production in Alaska and 75% of the Trans-Alaskan Pipeline. BPA-ARC could divest 360,000 acres of exploration rights to come into compliance with the state's limit of 500,000 acres for one company. On the other hand, we believe that the merger would enhance the prospects of a speedier commercialization of North Slope natural gas, which in the face of declining oil production rates, could convince the state of Alaska of the benefits of merger. Indeed, in its analyst presentation, BP Amoco suggested higher hydrocarbon production as a potential benefit of the merger for Alaska, and the company announced its plans to build a \$70 million gas-to-liquids pilot plant in the

state. In the North Slope, the merger would add ARCO's 43% ownership interest in the 25 TCF Prudhoe Bay natural gas cap to BP Amoco's 15% interest (all ownership percentages are before royalty interest) and could enhance the prospects for a commercial development scheme. Having two instead of three major owners of the gas cap could lessen the potential for disagreement between the parties over the means of commercializing the reserve. In past years there have been disputes between BP Amoco and ARCO regarding the timing and extent of natural gas development in the North Slope of Alaska. This stemmed from the differential ownership percentage of oil and gas between the two companies, with BPA owning a larger proportion of oil and therefore favoring maximum oil production at the expense of natural gas production, while ARCO had a larger ownership share of the gas relative to oil (see table). Another source of contention has been the method of commercializing North Slope gas with ARCO favoring liquefied natural gas (LNG) scheme, while Exxon and BP preferred a gas-to-liquids alternative. ARCO had previously suggested possible commercialization by 2007 or thereabouts; the acquisition could accelerate this timetable.

Figure 4. Total Reserves of Prudhoe Bay

	ARC	BPA	XON	ARC-BPA	Total Reserves
Prudhoe Bay Oil	22%	51%	22%	73%	3,900 B bbls
Prudhoe Bay Gas Cap	43%	14%	43%	57%	25 TCF

Source: Salomon Smith Barney

The combination will further shift BP Amoco's reserve profile toward natural gas. In addition to North Slope gas the acquisition will add ARCO's giant Tangguh natural gas find in Indonesia giving BPA a large portfolio of potential future Pacific basin natural gas developments. Tangguh was discovered by ARCO and has gross reserves of 20 TCF with 8 TCF (40%) net to ARCO. Little of the gas has been booked. Commercialization of Tangguh through a LNG scheme has been delayed owing to the East Asian economic downturn, but it is thought of as one of the more promising LNG projects currently being considered in the region.

The acquisition would also give BP Amoco exposure the West Coast downstream market. With a tight supply demand balance, logistic isolation from the broader oversupplied global refining sector and dominated by a small number of competitors, the West Coast and California in particular, is the most attractive downstream market in the U.S. ARCO has consistently generated one of the highest domestic downstream returns of its peers and the addition of this to BP Amoco asset base was identify as one of the key strategic rationale for the merger. BP previously exited the West Coast R&M business through its sale of the Ferndale, Wash. refinery and associated retail assets to Tosco in 1993.

BPA-ARCO will have a imposing position in the Deepwater Gulf of Mexico with an even larger lease position than deepwater pioneer RD/Shell. The combined BPA-ARCO will have the largest proportion of its assets in the United States. Fifty percent of the company's combined worldwide production and close to 60% of its worldwide refining throughput will be in the United States.

Accretion/Dilution

The acquisition will be accounted for using the purchase method of acquisition accounting under U.K. GAAP. As a result, an estimated \$18.7 billion of acquisition premium (or asset write-up) will be added to BP Amoco's equity book value, and the company will incur \$1.25 billion of annual amortization charges (derived by amortizing \$18.7 billion acquisition premium over 15 years).

Announced cost reductions are typically competed away by the market or eroded by inflationary factors. Assuming 50% of the \$1 billion synergies is in place in 2000, all the synergies are in place in 2001, and half of the announced synergies are competed away and eroded by inflation, we estimate the acquisition will be dilutive by \$0.63/share or 10.5% of BP Amoco's 2001 earnings per share and will be dilutive by \$0.73/share on 2000 EPS. The acquisition will be accretive to cash flow per share for 2000 and 2001. In addition, purchase accounting will have the effect of further diminishing BPA's previously stellar return on capital employed by both reducing earnings and increasing its capital employed. We estimate that BPA's 2001 pro forma return on capital employed will be reduced from an above-peer average of 19.3% to 13.1% (versus an international majors average = 13.9%).

We have also estimated pro forma earnings and cash flows under an alternate scenario that assumes all the announced synergies are realized by 2001 and are not subject to any market erosion. The acquisition remains EPS dilutive under this scenario.

Figure 5. EPS CFPS Accretion/Dilution

	1999	2000	2001
Base Case - Assumes 50% of Synergies Competed Away by Market			
WTI Oil Price	\$14.75	\$17.00	\$18.50
EPS ACCRETION/DILUTION			
Arco Earnings (pre merger)	\$686	\$1,102	\$1,416
BPA Earnings (pre merger)	\$5,400	\$7,512	\$9,343
- Implementation Expense (after tax)		-\$70	-\$70
+ Synergies (after tax) (a)		\$175	\$350
- Acquisition Premium Amortization (after tax)		-\$1,250	-\$1,250
Pro-forma BPA -ARC Earnings		\$7,469	\$9,789
ARC EPS (pre-merger)	\$2.10	\$3.35	\$4.30
BPA EPS (pre-merger)	\$3.35	\$4.75	\$6.05
Pro Forma BPA-ARC EPS		\$4.02	\$5.42
EPS Accretion / Dilution		-\$0.73	-\$0.63
Acc/Dil as a % of EPS		-15.3%	-10.5%
BPA-ARC P/E		23.8	17.7
Avg P/E Int'l Majors		20.9	17.3
CFPS ACCRETION/DILUTION			
Pro-forma BPA -ARC Earnings		\$7,469	\$9,789
+ Non-cash Expenses & Expl Exp		\$10,657	\$11,648
= Pro forma BPA-ARC Cash Flow		\$18,125	\$21,437
ARC CFPS (pre-merger)	\$8.70	\$10.30	\$11.45
BPA CFPS (pre-merger)	\$6.75	\$9.20	\$11.30
Pro Forma BPA-ARC CFPS		\$9.77	\$11.86
CFPS Accretion / Dilution		\$0.57	\$0.56
Acc/Dil as a % of CFPS		6.1%	5.0%
BPA-ARC P/CF		9.8	8.1
Avg P/CF Int'l Majors		10.0	8.9

Alternate Case - Assumes Full Credit For Announced Synergies

EPS ACCRETION/DILUTION		
Pro-forma BPA -ARC Earnings	\$7,644	\$10,139
Pro Forma BPA-ARC EPS	\$4.12	\$5.61
EPS Accretion / Dilution	-\$0.63	-\$0.44
Acc/Dil as a % of EPS	-13.3%	-7.3%
BPA-ARC P/E	23.3	17.1
Avg P/E Int'l Majors	20.9	17.3
CFPS ACCRETION/DILUTION		
= Pro forma BPA-ARC Cash Flow	\$18,300	\$21,787
Pro Forma BPA-ARC CFPS	\$9.86	\$12.06
CFPS Accretion / Dilution	\$0.66	\$0.76
Acc/Dil as a % of CFPS	6.7%	6.3%
BPA-ARC P/CF	9.7	7.9
Avg P/CF Int'l Majors	10.0	8.9

Fully Diluted Shares Outstanding	1,882	1,856	1,807
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(a) assumes 50% of synergies in place in 2000 and 100% in 2001;
also assumes 1/2 of the announced synergies is competed away

Source: Salomon Smith Barney

Figure 6. BPA-ARC Capital Employed

BPA-ARC Key Statistics

	BPA	Arco	BPA-ARC	Peer Average
Capital Employed	\$56,613	\$14,913	\$90,276	
Debt	\$13,755	\$7,074	\$20,829	
Equity (a)	\$41,786	\$7,580	\$68,116	
Others	\$1,072	\$259	\$1,331	
Cash	\$875	\$917	\$1,792	
Net Debt/Capitalization	23.1%	44.0%	21.5%	
1997 ROCE	13.3%	13.6%		13.7%
1998 ROCE	8.9%	6.4%		8.8%
1999 ROCE	10.2%	7.2%	6.4%	9.7%
2000 ROCE	14.7%	9.6%	9.7%	12.1%
2001 ROCE	19.3%	11.2%	13.1%	13.6%
Mkt Cap (3/26)	\$160,709	\$21,000	\$181,709	

(a) equity value of BPA-Arco includes acquisition premium of \$18.75B

Source: Salomon Smith Barney

We also note that the actual level of accretion/dilution will change depending on ARCO (and, indirectly, BPA's) eventual share price at the time the acquisition is consummated with a higher share price leading to a larger goodwill expenses and greater earnings dilution.

Figure 7. Accretion/Dilution Analysis—BPA-ARC

BPA-Arco Accretion / Dilution Analysis

	BPA	ARC	Synergies	BPA-ARC Earnings Before Goodwill Amortization
2001 Earnings	\$9,342	\$1,418	\$350	\$11,110
2001 Shares Outs.	1,539	327		
EPS	\$6.05	\$4.30		\$1 B X 1/2 X (1-30%)

BPA Share Price 3/26	\$100.44	<i>pre acquisition price</i>
ARC Share Price 3/26	\$65.38	<i>pre acquisition price</i>
Exchange Ratio	0.82	
BPA ARC Shares Outs	1,807	

					Purchase Accounting			
BPA Share Price	ARC Implied Acquisition Share Price	Premium to Pre- Acquisition Price	ARC's Implied Acquisition Mkt Cap	ARC's Acquisition Value - BV of Equity	Acquisition Premium Amortized over 15 Years	BPA ARC Earnings	BPA ARC EPS	Accretion / (Dilution)
\$90.00	\$73.80	13%	\$23,706	\$16,126	\$1,075	\$9,965	\$5.51	-\$0.54
\$91.00	\$74.62	14%	\$23,969	\$16,389	\$1,093	\$9,947	\$5.50	-\$0.55
\$92.00	\$75.44	15%	\$24,233	\$16,653	\$1,110	\$9,930	\$5.49	-\$0.56
\$93.00	\$76.26	17%	\$24,496	\$16,916	\$1,128	\$9,912	\$5.49	-\$0.56
\$94.00	\$77.08	18%	\$24,760	\$17,180	\$1,145	\$9,895	\$5.48	-\$0.57
\$95.00	\$77.90	19%	\$25,023	\$17,443	\$1,163	\$9,877	\$5.47	-\$0.58
\$96.00	\$78.72	20%	\$25,286	\$17,706	\$1,180	\$9,860	\$5.46	-\$0.59
\$97.00	\$79.54	22%	\$25,550	\$17,970	\$1,198	\$9,842	\$5.45	-\$0.60
\$98.00	\$80.36	23%	\$25,813	\$18,233	\$1,216	\$9,824	\$5.44	-\$0.61
\$99.00	\$81.18	24%	\$26,077	\$18,497	\$1,233	\$9,807	\$5.43	-\$0.62
\$100.00	\$82.00	25%	\$26,340	\$18,760	\$1,251	\$9,789	\$5.42	-\$0.63
\$101.00	\$82.82	27%	\$26,603	\$19,023	\$1,268	\$9,772	\$5.41	-\$0.64
\$102.00	\$83.64	28%	\$26,867	\$19,287	\$1,286	\$9,754	\$5.40	-\$0.65
\$103.00	\$84.46	29%	\$27,130	\$19,550	\$1,303	\$9,737	\$5.39	-\$0.66
\$104.00	\$85.28	30%	\$27,394	\$19,814	\$1,321	\$9,719	\$5.38	-\$0.67
\$105.00	\$86.10	32%	\$27,657	\$20,077	\$1,338	\$9,702	\$5.37	-\$0.68
\$106.00	\$86.92	33%	\$27,920	\$20,340	\$1,356	\$9,684	\$5.36	-\$0.69
\$107.00	\$87.74	34%	\$28,184	\$20,604	\$1,374	\$9,666	\$5.35	-\$0.70
\$108.00	\$88.56	35%	\$28,447	\$20,867	\$1,391	\$9,649	\$5.34	-\$0.71
\$109.00	\$89.38	37%	\$28,711	\$21,131	\$1,409	\$9,631	\$5.33	-\$0.72
\$110.00	\$90.20	38%	\$28,974	\$21,394	\$1,426	\$9,614	\$5.32	-\$0.73
\$111.00	\$91.02	39%	\$29,237	\$21,657	\$1,444	\$9,596	\$5.31	-\$0.74
\$112.00	\$91.84	40%	\$29,501	\$21,921	\$1,461	\$9,579	\$5.30	-\$0.75

Source: Salomon Smith Barney

Given ARCO's leverage to the E&P sector, the acquisition will increase BP Amoco's upstream exposure. Its upstream interest will rise from an already high 60% of capital employed to 64%.

Figure 8. Percentage Capital—BPA-ARC

	BPA	Arco	Combined	Peer Average
% Cap Empl R&M	24%	21%	23%	35%
% Cap Empl E&P	60%	79%	64%	52%
% Cap Empl Chemicals	16%	0%	12%	14%

Source: Salomon Smith Barney

Increasing its leverage to the upstream and oil prices, BPA's ratio of refining throughput to oil production will decrease from a below average 132% to 117% and its refining to hydrocarbon production ratio will drop from 89% to 79% (see table). Indeed by this measure, with the exception of YPF, BPA will become the most oil prone among the integrations in our universe. We believe BPA's higher leverage to oil prices is a long-term positive given our expectations of higher oil prices and the generally higher returns generated from upstream investments.

Figure 9. Natural Gas & Oil Production Analysis

	Nat Gas / Total Production	US Nat Gas / Total Production	Refining / Oil and Gas Production	Refining / Oil Production
Amerada Hess	32%	16%	129%	190%
ARCO	35%	20%	45%	69%
BP Amoco	32%	13%	89%	132%
BP Amoco/Arco	33%	15%	78%	117%
Chevron	26%	19%	89%	121%
Conoco	40%	25%	141%	237%
Exxon	40%	13%	150%	251%
Exxon Mobil	41%	12%	142%	242%
Marathon	52%	30%	135%	283%
Mobil	43%	11%	129%	228%
Murphy	39%	29%	179%	296%
Occidental	27%	24%	0%	0%
Phillips	51%	34%	79%	160%
RD Shell	36%	11%	110%	171%
Texaco	29%	22%	118%	165%
YPF S.A.	32%	3%	40%	54%
Average	37%	19%	102%	168%

Source: Salomon Smith Barney

For ARCO, the merger has come at a time when the company cash flow position is vulnerable. Particular concerns have been raised of its ability to sustain its high dividend yield (4.5%). We estimate that without the benefits of approximately \$900 million in asset sales, ARCO would have had a cash shortfall of \$1 billion during 1999 (7% of capital employed) after paying dividend of about \$900 million. The company's debt-to-capitalization ratio was at an already high 44% compared to its peers 36%. Even at \$17/bbl oil prices in 2000, we estimate the company would be \$800 million free cash flow negative after meeting its dividend and capex requirements. In addition without financial flexibility for higher capex the company's goal of "no decline after 1999" in production level from its core Alaskan upstream interest has been placed increasingly in question. Its acquisition by BPA provides a needed injection of financial flexibility that would have been required to sustain and grow oil and gas production. ARCO shares closed on April 1 at \$72.44, or an 8% discount to its implied acquisition price (\$78.50 per share). In the near term ARCO's shares will likely traded at a 5%-10% discount to its implied acquisition value. We saw a similar trading pattern with Amoco and Mobil after their mergers with BP and Exxon respectively (see attached graph). BP Amoco's dividend policy will be maintained after the merger (2.7% dividend yield vs. ARCO's 4.5%).

Technical Considerations

The U.K. market remains significantly underweight in BP Amoco, a situation which has been the case since the Amoco merger. At the time of the merger, the new BP Amoco ADS diluted U.K. institutions' holdings from a fairly neutral level of around 60% to below 40%. Since then, U.K. buying has raised this percentage once more, but only to a level of around 50%. Technical buying is likely to continue to support the shares, especially as the recovery in oil prices prompt more U.K. institutional investors to increase their weighting in oil companies.

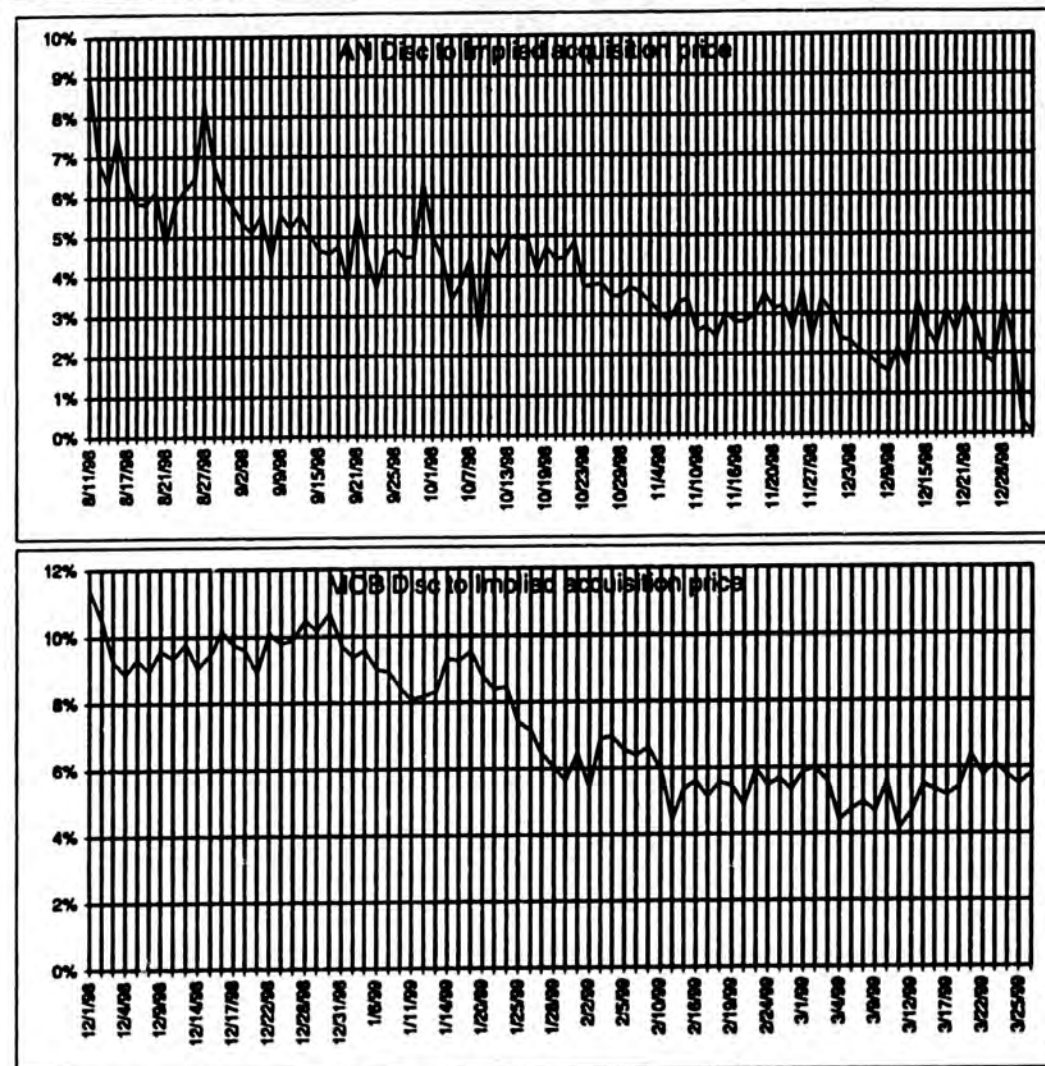
The deal announced with ARCO will probably exacerbate the technical situation that already exists in U.K. institutions. The substantial majority of new BPA shares will again go to U.S. investors. We estimate that this could well see U.K. institutions having their proportional holding diluted once more to around 44%. In order only to redress the imbalance caused by the ARCO deal and bring weightings back to the pre-deal level of around 50%, this implies net U.K. institutional buying of around \$12 billion of stock. Adding in this latest effect, a return to 60% weighting implies a massive \$31 billion in net purchases. Technical buying could put upward pressure on BPA share price.

Conclusion

ARCO closed at an 8% discount to its implied acquisition price on April 1, after the deal was announced. Based on the trading pattern of Amoco and Mobil after their respective mergers with BP and Exxon, we believe this trading gap is likely to narrow, providing potential share price upside. For BPA, the increase upstream exposure that will result from the acquisition will place the company in a more favorable position. The upstream sector has generated the highest returns of the majors businesses of the integrations. The financial impact of dilution on earnings

could counter some of the positive associated with higher upstream exposure. In addition the reduction in BPA's previous stellar ROCE could be another concern among investors. In the long term, BPA shares will be governed by longer-term fundamentals including oil prices and despite its recent runup, we expect oil prices will continue to improve as the OPEC production cuts begins to have their effect on markets fundamentals.

Figure 10. Amoco & Mobil—Discount to Implied Acquisition Price



Source: Company reports and Salomon Smith Barney

Figure 11. Major Oil Companies P/E Comps Base Case

Figure 11. Major Oil Companies P/E Comps Base Case

Major Oil Companies - PE Comp - Base Case - WTI 1999:\$14.75; 2000:\$17; 2001:\$18.50																						
Ticker	Rating	Outs ¹	Shares	PRICE	04/01/99	Target	Adjusted EPS										P/E					
							Price	4Q97	1997	1Q98	2Q98	3Q98	4Q98	1998	SSB 1999E	Conoco 1999E	SSB 2000E	SSB 2001E	1997	1998E	1999E	2000E
WTI Oil Price (/bbl)							\$19.87	\$20.65	\$15.89	\$14.76	\$14.10	\$13.50	\$14.45	\$14.75	\$13.93	\$17.00	\$18.50					
Amerasia Hess	AHC	3M	89	\$50.00	\$55		(\$0.49)	\$0.15	(\$0.76)	(\$0.24)	(\$0.07)	(\$1.11)	(\$2.19)	\$1.10	(\$0.24)	\$2.60	\$3.70	333.3	(22.8)	45.5	19.2	13.5
Amoco	AN	3L	960	\$63.40	NA		\$0.54	\$2.50	\$0.36	\$0.41	\$0.31	\$0.19	\$1.27					25.4	49.9			
ARCO	ARC	2L	327	\$72.44	\$70		\$1.23	\$5.31	\$0.62	\$0.67	\$0.19	\$0.22	\$1.69	\$2.10	\$1.76	\$3.35	\$4.30	13.6	42.9	34.5	21.6	16.8
BP	BP	1L	963	\$95.81	NA		\$1.11	\$4.87	\$1.00	\$0.89	\$0.76	\$0.66	\$3.31					19.7	28.9			
BP Amoco	BPA	1L	1,599	\$95.81	\$112		\$0.87	\$4.25	\$0.81	\$0.72	\$0.72	\$0.54	\$2.79	\$3.35	\$3.14	\$4.75	\$6.05	22.5	34.3	28.6	20.2	15.8
Chevron (h)	CHV	2L	658	\$86.81	\$85		\$1.22	\$4.46	\$0.73	\$0.80	\$0.63	\$0.58	\$2.73	\$3.15	\$2.87	\$4.20	\$5.25	19.5	31.8	27.6	20.7	16.5
Conoco	COC	2L	637	\$24.44	\$26		\$0.32	\$1.60	\$0.46	\$0.33	\$0.29	\$0.05	\$1.13	\$1.05	\$0.98	\$1.60	\$1.95	15.3	21.6	23.3	15.3	12.5
Exxon	XON	1L	2,465	\$70.13	\$84		\$0.88	\$3.25	\$0.76	\$0.65	\$0.58	\$0.62	\$2.61	\$2.75	\$2.59	\$3.25	\$3.70	21.6	26.9	25.5	21.6	19.0
Mobil	MOB	1L	808	\$87.38	\$105		\$0.99	\$4.21	\$0.88	\$0.81	\$0.61	\$0.62	\$2.92	\$3.45	\$2.91	\$4.00	\$4.40	20.8	29.9	25.3	21.8	19.9
Murphy	MUR	2L	45	\$42.50	\$45		\$0.64	\$2.87	\$0.35	\$0.34	\$0.20	\$0.02	\$0.91	\$1.00	\$0.54	\$2.20	\$3.35	14.8	46.7	42.5	19.3	12.7
Occidental	OXY	3H	350	\$18.13	\$21		\$0.36	\$1.80	\$0.26	\$0.12	\$0.00	(\$0.11)	\$0.25	\$0.20	(\$0.25)	\$1.10	\$1.45	10.1	72.5	90.6	16.5	12.5
Phillips	P	2L	259	\$47.25	\$48		\$0.77	\$3.46	\$0.65	\$0.58	\$0.26	\$0.00	\$1.50	\$2.10	\$1.39	\$2.65	\$3.35	13.7	31.5	22.5	17.8	14.1
Royal Dutch	RD	2L	2,144	\$52.13	\$57		\$0.51	\$2.41	\$0.54	\$0.43	\$0.24	\$0.23	\$1.44	\$1.65	\$1.53	\$2.20	\$2.60	21.6	36.2	31.6	23.7	20.0
Texaco	TX	1L	526	\$55.69	\$70		\$0.85	\$3.52	\$0.46	\$0.61	\$0.37	\$0.15	\$1.59	\$2.20	\$1.81	\$3.30	\$4.25	15.8	35.0	25.3	16.9	13.1
USX-Marathon	MRO	3L	292	\$27.88	\$29		\$0.45	\$2.20	\$0.26	\$0.55	\$0.24	\$0.04	\$1.09	\$1.60	\$1.05	\$2.15	\$2.90	12.7	25.6	17.4	13.0	9.6
YPF	YPF	1M	353	\$31.06	\$34		\$0.57	\$2.48	\$0.42	\$0.44	\$0.45	\$0.33	\$1.64	\$1.65	\$1.78	\$2.20	\$2.90	12.5	18.9	18.8	14.1	10.7
Total (ex AHC, XON-MOB, BP, AN)							\$9.68	\$41.82	\$7.20	\$7.05	\$4.78	\$3.29	\$22.29	\$26.25	\$22.10	\$36.95	\$46.45	17.03	31.78	26.91	18.83	15.07
Major Oil Companies' Mean P/E (ex AHC, OXY)																		19.35	33.86	28.34	20.92	17.31
Int'l Majors Mean PE (Big 6 (BPA, CHV, XON, MOB, RD, TX) + ARC)																		37.03	36.88	34.14	31.89	
S&P Industrials (Rptd Bnds)								1,560.2										47.8%	8.2%	17.0%	34.4%	
Int'l Majors P/E TO S&P Industrials P/E DISCOUNT ²								42.13				42.30			45.70	48.93						

Figure 12. ARCO Model

EARNINGS ANALYSIS	1991	1992	1993	1994	1995	1996	1997	1998	1999E	2000E	2001E
ARCO (ARC)	\$21.49	\$20.55	\$18.42	\$17.19	\$18.39	\$22.02	\$20.65	\$14.39	\$14.75	\$17.00	\$18.50
WTI Oil Price											
<i>In millions of dollars except per share amounts</i>											
REPORTED EARNINGS:											
Oil & Gas	\$549	\$962	\$164	\$527	\$784	\$1,329	\$1,347	(\$616)			
Coal	\$33	\$83	\$107	\$70	\$75	\$60	\$53				
Ref & Mktg	\$266	\$378	\$333	\$226	\$200	\$287	\$320	\$281			
Transportation	\$212										
Chemical	\$303	\$219	\$253	\$376	\$654	\$373	\$538	\$183			
Other/Unallocated	(\$60)	\$85	(\$94)	\$235	\$163	\$60	(\$66)	(\$112)			
Int Exp	(\$594)	(\$534)	(\$494)	(\$515)	(\$500)	(\$446)	(\$421)	(\$225)			
Reported Net Income	\$709	\$801	\$269	\$919	\$1,376	\$1,663	\$1,771	\$489			
Preferred Dividends	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0			
Income Avail. to Common	\$707	\$799	\$267	\$917	\$1,374	\$1,661	\$1,769	(\$491)			
NON-RECURRING ITEMS:											
Oil & Gas	(\$170)	\$138	(\$409)	(\$57)	\$29	\$1	\$0	(\$1,002)			
Coal	(\$50)	\$0	\$6	(\$3)	(\$10)	\$0	(\$5)	\$0			
Ref & Mktg	(\$10)	(\$39)	(\$84)	(\$79)	(\$22)	(\$10)	(\$38)	\$1			
Transportation	(\$30)										
Chemical	(\$20)	(\$46)	(\$8)	(\$15)	\$0	\$0	\$191				
Other/Unallocated	(\$15)	\$87	(\$62)	\$196	\$51	\$9	(\$54)	(\$148)			
Int Exp	\$0	\$0	\$5	\$0	\$0	\$0	(\$29)	\$94			
SFAS 96	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
SFAS 106/105	\$0	(\$392)	\$0	\$0	\$0	\$0	\$0	\$0			
Non-recurring Items	(\$295)	(\$252)	(\$552)	\$42	\$48	\$0	\$65	(\$1,055)			
ADJUSTED EARNINGS:											
Oil & Gas	\$719	\$824	\$573	\$584	\$755	\$1,328	\$1,347	\$386	\$688	\$1,064	\$1,387
Coal	\$83	\$83	\$101	\$73	\$85	\$60	\$58				
Ref & Mktg	\$276	\$417	\$417	\$305	\$222	\$297	\$358	\$280	\$330	\$375	\$406
Transportation (inc. in other segments 1992-)	\$242										
Arco Chemical	\$212	\$256	\$247	\$280	\$460	\$320	\$228	\$171			
Lyondell Petrochemical Equity Earnings	\$111	\$10	\$13	\$111	\$194	\$53					
Total Chemical Earnings	\$323	\$265	\$261	\$391	\$654	\$373	\$347	\$171			
Other/Unallocated	(\$45)	(\$2)	(\$32)	\$39	\$112	\$51	(\$12)	\$36	(\$30)	(\$30)	(\$30)
Int Exp	(\$594)	(\$534)	(\$499)	(\$515)	(\$500)	(\$446)	(\$392)	(\$319)	(\$300)	(\$305)	(\$344)
Operating Net Income	\$1,004	\$1,053	\$821	\$877	\$1,328	\$1,663	\$1,706	\$554	\$688	\$1,104	\$1,418
Preferred Dividends	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Income Avail. To Common	\$1,002	\$1,051	\$819	\$875	\$1,326	\$1,661	\$1,704	\$552	\$686	\$1,102	\$1,416
Avg Shares-Basic (MM)	323.4	323.0	323.0	326.4	321.7	321.7	321.2	321.0	321.3	321.3	321.3
EPS - Reported	\$2.19	\$2.47	\$0.83	\$2.81	\$4.27	\$5.16	\$5.51	(\$1.53)			
Non-recurring Items	(\$0.91)	(\$0.79)	(\$1.70)	\$0.12	\$0.14	\$0.00	\$0.20	(\$3.29)			
Adj. EPS - Operating	\$3.10	\$3.25	\$2.54	\$2.68	\$4.12	\$5.16	\$5.31	\$1.72	\$2.14	\$3.43	\$4.41
Avg Shares-Diluted (MM)					326.5	326.5	327.4	327.0	327.0	327.0	327.0
EPS - Reported					\$4.21	\$5.09	\$5.41	(\$1.50)			
Non-recurring Items					\$0.15	\$0.00	\$0.20	(\$3.23)			
Adj. EPS - Operating					\$4.07	\$5.09	\$5.21	\$1.69	\$2.10	\$3.38	\$4.34
Annual EPS Growth Rate					25.3%	2.7%	-67.6%	24.2%	60.5%	28.5%	

Source: Company reports and Salomon Smith Barney

Figure 13. BPA Model

EARNINGS ANALYSIS						
BP Amoco (BPA)	1996	1997	1998	1999E	2000E	2001E
WTI Oil Price	\$22.02	\$20.65	\$14.39	\$14.75	\$17.00	\$18.50
Adjusted Earnings:						
E&P -- Worldwide	7,673	7,310	3,632	4,503	6,923	8,824
UK	2,293	2,271	1,598	1,333	1,920	2,459
Rest of Europe	507	599	372	283	386	474
USA	3,285	3,094	1,248	1,937	3,016	3,698
Rest of World	1,588	1,346	414	476	1,067	1,599
R&M -- Worldwide	1,708	2,292	2,564	3,477	3,959	4,355
UK	89	208	299	365	430	490
Rest of Europe	252	414	563	690	750	810
USA	607	921	1,168	440	495	540
Rest of World	760	749	534	1,982	2,284	2,515
Chemicals -- Worldwide	1,654	1,638	1,150	944	1,114	1,523
UK	393	447	207	275	360	440
Rest of Europe	233	306	310	524	559	823
USA	854	806	566	95	115	140
Rest of World	174	79	67	50	80	120
Other -- Worldwide	(491)	(524)	(324)	(288)	(259)	(244)
Adjusted Operating Income	<u>10,544</u>	<u>10,716</u>	<u>7,022</u>	<u>8,637</u>	<u>11,736</u>	<u>14,458</u>
Interest	(930)	(908)	(1,041)	(874)	(854)	(865)
Tax	(2,848)	(2,902)	(1,450)	(2,330)	(3,359)	(4,241)
Minorities	(19)	(151)	(63)	(10)	(10)	(10)
Adjusted Net Income	<u>6,747</u>	<u>6,755</u>	<u>4,468</u>	<u>5,423</u>	<u>7,513</u>	<u>9,343</u>
Average ADRs (MM)	1,575	1,590	1,599	1,614	1,588	1,539
Adj. EPADR (Post-exceptional)	4.29	4.25	2.79	3.36	4.73	6.07

Source: Salomon Smith Barney

Notes

Notes

Notes

Companies mentioned in this report:

- Atlantic Richfield (ARC-\$74; 2L)
- BP Amoco (BPA-\$97; 1L)
- Exxon (XON-\$72; 1L)
- Mobil# (MOB-\$91; 1L)

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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4/23/99

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

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

April 23, 1999

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

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

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

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

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

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

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

It will make us more efficient.

It will make us more competitive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Tanker players change

Alaska Tanker Co. enters the market

By DAVID WHITNEY
Daily News Washington Bureau

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

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

That may be the most visible public sign of one

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

With little fanfare, BP

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

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

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

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

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

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

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

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

BP owns 25 percent.

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

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

Please see Page F-4, TANKERS

TANKERS: BP major player in new company

Continued from Page F-1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Millennium Class Highlights

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

Tom Luckfish
(563-7380)

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

ARCO Marine, Inc. 
Subsidiary of Atlantic Richfield Company

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REPORT TO THE HOUSE

**House Special Committee
on World Trade
and
State/Federal Relations**

[FEB 2000]



**Ramona L. Barnes
Chairman**

REPORT TO THE HOUSE

House Special Committee on World Trade and State-Federal Relations

**Representative Ramona L. Barnes
Chairman**

The House Special Committee on World Trade and State/Federal Relations was originally formed by the Twentieth Alaska Legislature to study issues relating to world trade and state/federal relations.

As Chairman, I have attempted to ensure Alaska's relations with other nations are in a state of improvement and that trade and cultural exchanges are readily available to its residents. The World Trade committee is in an outreach mode, especially with but not solely concentrating on Alaska's Pacific Rim neighbors. Improving trade is a goal we do not take lightly.

The past year has been a busy one for the committee. The following pages document some of the work done by the committee to promote Alaska, work closely with elements of the state government and with our Pacific Rim friends and trading partners, and others around the globe.

INTERIM COMMITTEE MEETING (October 19, 1999 in Anchorage)

The meeting was attended by Chair Barnes, and member Representatives Cowdery, Berkowitz, Joule and by telephone, Representative Phillips.

Executive Director John Doyle of the Northern Forum, and Deputy Director/Secretary Priscilla Wohl presented information about the Northern Forum and on several issues and upcoming meetings of mutual interest to the committee. Mr. Doyle also introduced Mr. Masahiro Takeuchi, Regional Representative of the Hokaido Prefecture in Japan, who is based in Anchorage and works out of the Northern Forum offices.

Following discussion, the committee members agreed that there is a need to work on the difficulties presented by Customs Laws involving the Russian Far East. Chair Barnes will work with the Russian Consul General in Seattle to arrange a meeting to consider the issue. The members determined it would be necessary to involve the Alaska Congressional delegation and other federal officials.

As a result of the Northern Forum briefing, World Trade Committee member Representative Cowdery traveled to St. Petersburg, Russia to represent the committee and the Alaska House of Representatives at a high-level meeting held on November 9 and 10, 1999 to bring participants up to date on the Northern Sea Route. Representative Cowdery reported the meeting was highly productive, in part because it brought together for the first time in years all the participants involved in the research, development and ultimate use of the Northern Sea Route. Representative Cowdery's report is attached as Appendix B.

JAPAN

Alaska's Number One trading partner (*See Appendix C - Export Update)

Chair Barnes in June, joined the members of the Committee's Japan Subcommittee for a working lunch at the Anchorage residence of Consul General Yoshinori Tsujimoto. The purpose of the meeting was to discuss trade and other issues of mutual importance to Japan and Alaska. The meeting went well and Chair Barnes believes it will further encourage and help in the development of trade and cultural ties between Japan and Alaska. The meeting further solidified an already good working relationship with the Consul General.

The Subcommittee members include Chairman Joe Green and Representatives John Cowdery and Ethan Berkowitz.

Chair Barnes was also honored to accept the invitation from Consul General and Mrs. Tsujimoto to participate in the Anchorage celebration of the birthday on December 14, 1999 of the Emperor of Japan.

Trade Mission Report

A revealing report (see Appendix A) by Japan Subcommittee Chairman Green provides an excellent review of his participation in a state sponsored Trade Mission to Japan July 12-15, 1999.

The report offers a chilling assessment of the potential future of Alaska's seafood marketing in Japan as well as LNG market development there. For example, Representative Green's report suggests that while 'older' consumers in Japan may prefer wild stock seafood including Alaska salmon, the overall market appears to be leaning toward the purchase of year-round delivery of undamaged, fresh and attractive farmed fish. In other words, the Alaska sellers must improve the product for the Japanese market, particularly its visual impact.

On the LNG market front, Representative Green learned that while Japan wants to purchase LNG from Alaska, which they view as a stable, long time trading partner, the volume of product we will likely place in the market from the North Slope is simply too large for them to absorb and will require participation of other countries. Japan also places a cap on the amount they purchase from each supplier.

Galena GM-Suzuki

Chair Barnes co-hosted a dinner for Bob Thompson, Vice President for Advanced Class Vehicles, General Motors; Jeffrey Kuhlman, Manager of Communications for GM; Rick Suzuki, President, Suzuki U.S.A.; Dr. Igarashi, Deputy General Manager, Suzuki Motor Car and Mr. Tsuda, member of the Board, Suzuki Corporation. The event was filmed and recorded by General Motors.

The dinner and visit marked the beginning of what is hoped will be a long term relationship between the Galena School District, General Motors and Suzuki Corporation.

Already an innovative and progressive district, Galena Schools under the leadership of District Superintendent Carl Knudsen and others has been actively seeking ways to improve the education of Alaska's rural residents. Proposed following discussions between Mr. Thompson of GM and Mr. Knudsen is the development of a small engines school for students of the District. GM and its partially owned subsidiary Suzuki, will provide practice motors, tools and training to operate the school.

REPUBLIC of KOREA

The Republic of Korea is Alaska's second largest export market.

On March 31, 1999, the Republic of Korea closed its Consulate General office in Anchorage and expanded the coverage area of the Seattle Consulate General to include Alaska. This left the State of Alaska with no on-sight official representation for the Republic of Korea.

In December, Chair Barnes participated in a lunch meeting in Anchorage that included Korean Consul General Kyu-Ok Park as well as representatives from the Alaska Division of Trade and Development and others. During the meeting, Consul Park announced that Bill Bittner of Anchorage, has been named Honorary Consul for the Republic of Korea in Alaska. This again will provide Alaskans with a locally-based official representative of the government of the Republic of Korea. Also during the meeting, it was pointed out that Alaska's exports to Korea had increased during the first 10 months of 1999 by 49% over 1998.

People's Republic of CHINA

The People's Republic of China (PRC) is Alaska's Fifth largest trading partner.

As we continue work to further develop trade with the PRC, the State of Alaska again played host to high level diplomatic missions from China.

PRC Delegations to Anchorage

Interest in trade with Alaska by the People's Republic of China has blossomed, as evidenced by the continued interest and a series of important visits by high level representatives of the Chinese government and its commercial enterprises.

In June, a delegation arrived to meet with various government officials and legislators to set the stage for the visit in August of several China petroleum industry officials. Economic and Commercial Consul from the Consulate General in San Francisco, Mr. He Weiwen led the delegation. In addition to Mr. He, the delegation included Ms. Jiang Haiying, Deputy Director of The Department of American and Oceanian Affairs and Mr. Ye Haibo, Officer of the American Desk of the Department of American and Oceanian Affairs, each from the Ministry of Foreign Trade and Economic Cooperation. Committee Chair Barnes co-hosted a formal dinner for the delegation during their visit to Anchorage. The guest list was made up of representatives from Alaska's business community and state government including several legislators.

The purpose of the visit in August was to discuss the purchase of oil as well as expand understanding and further strengthen an already good relationship between our governments and people.

Led by Mr. Tang Suxin, Vice President of China International United Petroleum & Chemicals Corporation, the eight person delegation was comprised of six Petroleum industry executives as well as Mr. He Weiwen, the Commercial Consul from the PRC Consulate General in San Francisco and his spouse. Again, Chair Barnes co-hosted a formal dinner for the delegation during their visit to Anchorage. Guests included representatives of various government and business entities, including Petro Star, Exxon-Mobile, VECO, BP-Amoco, ARCO, Division of Trade and Development, several legislators and others.

During their visit, Mr. Tang and the delegates were able to develop a draft Memorandum of Understanding (MOU) with BP Amoco for the purchase of

about 3.6 million barrels of oil during the year 2000. While the MOU was to have been signed in early October, the pending BP Amoco purchase of ARCO has caused a delay in the signing. PRC interest remains high to finalize the agreement and they are hopeful it will take place within the next few months.

The People's Republic of China is a likely future Alaska LNG purchaser, and in the opinion of Chair Barnes the potential is now becoming strong for the PRC to begin purchasing a rapidly increasing volume of our LNG. If one of the latest pipeline/LNG projects go forward, she believes we can work with China to develop their market (infrastructure) as Alaska develops its project so the seller and buyer can be ready at the same time, hopefully within 6-8 years. It is her belief that the PRC is the single entity in the world capable of the kind of rapid infrastructure development necessary to begin using large quantities of gas in an area where very little or no LNG is now used.

A final and positive note on Alaska's developing relationship with the PRC is expected to result in an almost immediate impact at Anchorage International Airport. Division of Trade & Development has announced that after four years of talks and negotiations, China Southern Airlines will soon be operating 747 cargo planes on a 3-times per week schedule (six landings) at Anchorage International Airport. This can only help in furthering trade opportunities between Alaska and the PRC. CSA is China's largest airline.

~

Republic of CHINA (Taiwan)

Taiwan is Alaska's sixth largest trading partner.

Our excellent relations with the Republic of China, including a close working relationship with the Taipei Economic and Cultural Office (TECO) in Seattle, have shown continued positive results.

In July, I hosted a visit by Taipei Partner Cities Committee member Mr. John Kao and five of his close associates. Mr. Kao is a former officer with the giant Tuntex Group, who among other business interests, is now also Vice Chairman of the Taiwan Development & Trust Corporation. I arranged a special Anchorage Partner Cities Committee meeting at the Anchorage City Hall, including a separate meeting with Mayor Rick Mystrom. In addition to a small luncheon to bring Mr. Kao and Division of Trade & Development officials together, I also made other arrangements for the group, including recreational side trips during their July 16-20 stay in Alaska. I co-hosted a formal dinner for the group where representatives of the Anchorage business community as well as government officials were able to meet and speak with them.

Mr. Frank Liu, Director General of the TECO office in Seattle arranged with assistance from the Alaska Chinese Association to bring to Alaska the successful performance in August, of the Taipei Youth Folk Sports Troupe. Following welcoming remarks from several officials including Chair Barnes, the students performed a wonderful and often beautiful array of activities requiring great stamina and physical skill.

This was an initial 'good will' effort to develop greater understanding between our two cultures - particularly between the people of the cities of Anchorage and Taipei, in view of the signing two years ago by the respective Mayors of the cities of a Partner Cities Agreement. Other efforts relating to the Agreement continue under development, such as commercial arrangements, including funding and construction of the Alaska Seafood Center (ASI) in Anchorage.

The \$135 million Alaska Seafood Center is now operational following a two-year construction effort. As a member of the ASI Board of Directors during the development of the project, Mr. Kao toured the impressive ASI facility during his July visit. (*See separate heading for an ASI update)

At the request of a businessman from Taiwan, Chair Barnes also pursued and provided information dealing with the purchase of Alaska Reindeer antlers and several other natural exportable products from Alaska.

The office of World Trade and State/Federal Relations is currently working on preliminary details for a legislative visit to Taiwan during the early weeks of the next interim, at the suggestion and anticipated invitation of the Taiwan government. Details will be forthcoming as they are developed.

~

RUSSIA

In March, Chair Barnes hosted a significant dual delegation of representatives from the Russian federal Duma, in Moscow and the state Duma in Sakhalin. The Moscow element of the dual delegation represented the federal Duma's Natural Resources Committee and was equivalent to having a congressional committee visit Alaska. Unfortunately, late on the day of their arrival in Anchorage, the members of the federal Duma delegation were called back to Moscow as a result of a political issue involving the United States.

The purpose of the visit by the dual delegation was to learn of Alaska's system of taxation, determine how Alaska's oil development has benefited Alaskans and learn how the state and the private oil industry interact.

During their visit, the leadership of the state Duma met with legislative leaders and Governor Knowles as well as numerous oil and private industry officials along with University of Alaska representatives and others. They also signed a Memorandum of Continuing Mutual Cooperation between the State of Alaska and the State Duma of Sakhalin. This protocol extended an earlier agreement signed in 1996.

Also during the visit, First Deputy Chair Lubov Shubina, the head of the Sakhalin Regional Duma delegation asked Representative Barnes about the possibility of obtaining some assistance for a severely injured Russian child. Mrs. Shubina explained the 9 year old child had been struck by a railroad train and had lost his right leg and arm. They were seeking help in obtaining a used or otherwise inexpensive wheelchair into which the child might fit in order that he have some mobility.

After following several paths leading nowhere, Chair Barnes approached the owner of an Anchorage company about seeking contributions from some of his friends in the Anchorage business community to go toward the purchase of a wheelchair. Rather than seek contributions when he learned of the child's plight, Bill Allen of VECO graciously offered to purchase a wheelchair himself, explaining to Representative Barnes "If you make the arrangements, I'll pay the bill". Making those arrangements and finally obtaining the chair (built and fitted for the child) took several months. Mr. Allen successfully shipped and then presented the wheelchair to young Ivan Batir, during a visit to Sakhalin at the end of August. Mr. Allen proclaimed upon his return to Alaska that it took the boy just 10 minutes to master the remote (left) hand controls for the powered chair.

In her capacity as Chairman of the World Trade Committee, Representative Barnes met in Anchorage with Mr. Andrey Victorovich Artiukhov, Chairman of the Regional Duma for the Yamalo-Nenetskiy Autonomous District of Russia, located in northeast Siberia.

Mr. Artiukhov was in Alaska from September 9 into September 15th on a visit sponsored by the Rotary International's Russian Leadership Program, through a grant from the Library of Congress entitled: "Open World - The Russian Leadership Program".

While in Anchorage, he was able to attend meetings held by several organizations and met with several Alaska legislators, including House Speaker Brian Porter, Senate President Drue Pearce and Chair Barnes.

Chairman Artiukhov and I discussed his interest in learning more about the Alaska Permanent Fund as it is set forth in Title 37 of the Alaska Statutes. He also expressed considerable interest in oil and gas royalty issues, as set out in Title 39 and the control of local government as outlined in Title 29. As a reminder, the Alaska Legislature had translated each of these statutory titles into the Russian language last year.

A sister region to Yamalo Nanets, the Khanty Mansisk Autonomous Okrug, had earlier actively begun to pursue a program based on the Alaska Permanent Fund called the Fund for Future Generations and Mr. Artiukhov was very familiar with the effort. Both sub-regions, Yamalo Nanets and Khanty-Mansisk are a part of the larger Tyumen Region, Russia's oldest and largest oil producing region.

In early December, Representative Barnes enjoyed a brief visit with a small delegation of entrepreneurs from the Russian Far East, including Khabarovsk and Sakhalin, hosted by the Carana Corporation. They expressed great interest in and were gathering information about our political system and establishing long term ties with local Alaskan organizations or businesses with interests similar to theirs.

AZERBAIJAN

Trade between Alaska and Azerbaijan is negligible at this time, though some Alaska companies have been involved in projects located in Azerbaijan.

Chair Barnes was honored by the visit to her Anchorage office on September 2, 1999 of the U.S. Ambassador to Azerbaijan, Stanley T. Escudero.

Ambassador Escudero and Representative Barnes discussed many issues of mutual interest and she was pleased to learn they share a strong interest in oil and gas development. Interestingly, the Ambassador expressed interest in involving Alaskan companies in oil and gas development in Azerbaijan. As Alaska's oil reserves play a lesser role in the state's economy, the many Alaska companies that grew with the oil industry here are seeking work in other areas of the world. It was their shared belief that the expertise of these companies could prove especially helpful to those operating under harsh environmental conditions often experienced in Azerbaijan.

In October, I invited His Excellency, President Hydar Aliyev to visit Alaska. President Aliyev is interested in Alaska's oil industry and I offered to arrange industry briefings pertaining to the infrastructure on the North Slope, the Cook Inlet offshore platforms, as well as the Trans Alaska Oil Pipeline. Scheduling of President Aliyev's visit has not yet been accomplished.

A few Alaska-based companies have done significant contract work in Azerbaijan in the past and some upcoming projects may receive bids from Alaska companies, although none are so involved at present. The Caspian Sea area in general has potential in the range of the North Sea as far as oil and gas development. Therefore, the area represents very important potential for many of the companies operating in Alaska.

EGYPT

Existing trade and cultural contact between Alaska and Egypt is negligible.

Interest was conveyed to the Chairman about a possible visit to Alaska by Consul General Hagar Islambouly of the Consulate General of Egypt, in San Francisco. Tentative discussions took place this past fall about a possible visit to Anchorage but the Consul General was unable to make the necessary arrangements at the time. She expressed considerable interest in seeing Alaska and will try to schedule a visit perhaps during the summer of 2000.

~

Alaska Seafood Center in Anchorage

Groundbreaking for what will be the largest seafood center in the world took place in Anchorage in July, 1997. The high tech, \$135 million facility is now operational with construction completed late last summer. Tune-up of the eight production lines began this past fall and is continuing at the present time. Each line will be capable of handling 8400 pounds of fish per hour. All eight lines are expected to be fully operational by spring at which time the plant will begin a second work shift. Presently, new hires come in each Friday and number more than 105. At full capacity, employment will reach 450 people with only 28 of those coming from outside Alaska (95% Alaska hire). It is expected that half the final number will be working by July, 2000.

Actual product production began January 13th. Development of customers is going very well and initial customer reception is reported to be positive.

It is anticipated that production during the year 2000 will reach between 60 and 70 million pounds of fish. Once up to full operation, the plant will handle 100 million pounds of frozen fish and 25 million pounds of fresh fish annually.

~

Summary by the Chairman

1999 was a busy year for the World Trade Committee. I do not anticipate the new year will usher in a decrease in interest in Alaska. This will be particularly true in view of the gradually improving economies in Asia following their economic recession during the past few years.

In my view, the World Trade Committee and its efforts to improve relations and develop for Alaska, further trade and cultural contact with foreign governments and people will only increase in importance. Government to government contact is often a crucial element in trade development that is of particular importance for many of Alaska's trading partners around the Pacific Rim. Therefore, increased development of government to government contact for the purpose of such trade development must be further emphasized if Alaska is to realize its potential.

A handwritten signature in cursive script, reading "Ramona L. Barnes". The signature is fluid and elegant, with a large initial "R" and "B".

*Ramona L. Barnes, Chair
February, 2000*

APPENDIX A



Official Business

Alaska State Legislature

State Capitol
Juneau, AK 99801-1182

MEMORANDUM

To: Representative Ramona Barnes
WTR Chairman

From: Representative Joe Green
House Majority Leader

Date: August 4, 1999

Re: Japan Trip

The Japan International Seafood Expo was a huge success, if measured by the quality of exhibitors and not the quantity. I may have been prejudiced by prior attendance at U.S. and Canadian Expo's where the opposite was often the case.

Mr. Kojiro Abe and his wife Ms. Hiromi Mita (Abe) both indicated to me they were very pleased with the Expo, but didn't indicate if it was quality, quantity, or both. Also, this was the first such expo and I'm confident the numbers will improve.

The reason for the above statement is fear. The quality of the competition Alaska faces in its seafood export future is ominous. Our joint presentation between our Alaska Trade Office and ASMI was very good, but it was overshadowed by many of the foreign presentations for attention getting gimmicks. Exotic fish aquaria, skimpily clad beautiful ladies, arrays of samples, and just plain expensive, lavish booths and attendants. As I said, the quality of the booths was excellent.

The main thing I learned and what I had been led to believe from a pre-trip briefing was that we are in a free-for-all with one hand tied behind our backs. We have an excellent rapport (I realize that's redundant but it cannot be over stated) with the Japanese. We, as Alaska, have their attention and a reputation for quality raw products. But we are losing our position, as their preferred supplier of seafood, to subsidized companies from many countries, not just the familiar "farm fish" exporters like Norway and Chile.

It had been said, and I now believe it, the Japanese (from the wholesaler to the ultimate consumer) purchase visually; that is to say, how the product looks. They, of course, are very interested in quality and price, but their initial reaction is often the governing issue and quite often neutralizes, or is the deciding factor between two or three choices that are "nearly" equal.

You may already be aware of these problems, as our Division of Trade and Development certainly is. I will not dwell on the facts that we: 1.) have lost (with some importers) and are losing (with some

others) our earlier advantage of being the first fish trading state with Japan (over 20 years ago); 2.) we are hanging on but losing ground because of our earlier established "good 'ol Alaska" status; 3.) we export raw, usually frozen, seafood requiring further processing for the ultimate consumer; 4.) have "net" bruises, cyclic availability volumes, and too often limited convincing advertising for our products, and 5.) have not effectively played the "Asian game" of make it attractive. I will merely toss out the questions of 1.) where have the in-depth discussions between our exporters, our government, and our suppliers been, 2.) do we as a state legislature: a.) believe the statistics about jobs related to our fishing industry, even though they may not relate directly to the state's general fund; b.) accept the challenge that our competition receives substantial subsidies; c.) realize we are fighting a losing battle with the "new to salmon, etc. seafood consumers" to the farmed products, because we have not made these "rookie eaters" aware of the merits of seafood or that the wild stock (even fresh frozen) is far superior to the "penned" variety.

I'm afraid we've been so consumed with low oil production/price and balanced budget issues that we've somewhat abrogated our responsibility in the other raw material exports from Alaska.

Certainly most, if not all, of us have given lip service to these peripheral issues but we really haven't gotten into meaningful debate about what we plan to do. I realize that subsistence, the long range fiscal plan, and the BP/ARCO "merger" are front burner issues which justifiably will occupy most of our time over the next few months and that the other exports problems can be set aside. But, setting aside should not mean ignoring, and I strongly urge a series of in-house and public hearings on plans to fix or forget some of our other exports like fish, timber, and natural gas.

While on this visit to the First International Seafood Expo, I was fortunate enough to meet several of "our" trading partners (executives of several Japanese companies). Our Trade and Development Director Greg Wolf and our contract State Representative in Japan, Abe san had a full three day itinerary for meeting these executives.

An addendum is attached concerning the people and companies with whom I met, but it is important here to relate that the Japanese (not unlike the Russians) are very very government conscious and I am reportedly the first state legislator to visit these very important trade partners in Japan in 10 years. They would greatly appreciate more of us showing our respects and they would very much appreciate a re-visit from the governor.

cc: Brian Porter, Speaker of the House

ADDENDUM
TRADE MISSION ITENERARY

- 6/11/99 Presentation by Ryuichi (Rudy) Tsukada of the Division of Commerce and Community Development; Division of Trade and Development to Commissioner Sedwick, Director Greg Wolf, Japan Trade Specialist, Nancy Babcock, and me.
- 7/12/99 Arrived Narita Airport, Tokyo 3:00 PM (17 hours ahead of Anchorage)
- 7/13/99 4:15 AM: Left for Tsukiji (Seafood) Market and tour led by Mr. Tomohiro Asakawa, a Commercial Trade Specialist of the American Embassy.
- Noon: Lunch with Messrs. Hironori Shimizu and Toshio Yamanouchi of Alaska Kai (a trade organization very similar to our Alliance).
- 2:00 PM: Met with Mr. Todd Turner Schneider Executive Director International Fisheries of the American Embassy, and Mr. Frank Carrico Commercial Attache.
- 4:00 PM: Met with Yutaka Ando Executive Managing Director, Morio Higashigawa General Manager, and Fumito Kawa Deputy Department Manager of the Maruha Corporation.*
- 6:45 PM: Dinner with our Japanese Office staff: Representative Mr. Kojiro Abe, Trade Specialist Ms. Mariko Kuroda, and Tourism Specialist Ms. Hiromi Mita (Abe).
- 7/14/99 8:30 AM: Visited First International Seafood Expo at Tokyo's new Exposition Complex
- 11:00 AM: Met with Mr. Haruko Matsumuro Chief Marketing Coordinator of ASMI's Japan office, Ms. Sung Hwa Lee Executive Director of R& L Association's representing ASMI, Haruko Matusmuro Chief Marketing Coordinator of R& L, and Yoko Saito Assistant Coordinator of R & L.
- 2:00 PM: Met with Mr. Taiji Veno Managing Director and General Manager of the Metal Resources Division of Sumitomo, Metal Mining and Mr. Hidetoshi Takaoka Chief Geological and Deputy General Manager of the Engineering Department of Sumitomo.
- 3:00 PM: Visited the famous Ginza shopping area to see how marine products are marketed in Japan

* In addition to importing and processing Alaska's marine products, they own the Yokohama Bay Stars, last years champs of the Japanese Baseball League.

7/15/99 10:00 AM: Met with following members of Mitsubishi Corporation's LNG import executive team: Mr. Kiyoshi Sawamura Chief of LNG Business Division, Mr. Masayuki Mizuno General Manager LNG Business Department A., and Mr. Tsutomu Awaya Deputy General Manager; Mr. Kgita Nose Alaska Protect Team Leader and Mr. Nagar Nagayasu Matsukawa General Manager LNG Business Department B.

1:00 PM: Met with following members of Marubeni Corporation's executives of their Agri-Marine Department: Mr. Katsuo Koh Sr. V.P. and C.E.O. Agri-Marine Department, Mr. Ichiro Kishida General Manager Agri - Marine Department, Mr. Masatoshi Yamada General Manager Meal Merchandizing and Marine Products, and Mr. Motfumi Tezuka Deputy General Manager Meal Merchandizing and Marine Products.

3:00 PM: Met with following members of Marubeni Corporation's executives of their LNG-Energy Department: Mr. Hajime Kubo Sr. Assistant to Executive Officer of Energy Group, and Mr. Masatsugu Neki General Manager LNG Project Department

Brief Comments

All meetings went well, Kojiro (Abe san) accompanied me on the 13th and 14th and Ms. Mariko Kuroda on the 15th. A quick summary: All the companies like trading with Alaska and as traditionalists they want to continue. But while our name, having been there first, and perceived better government stability has given us an edge, we now must compete with many others. Many other states as well as nations have entered the Japanese market and several, like the state of Washington, have seen Japan's recent economic woes as an opportunity rather than a deterrent. To continue to be effective, much less attempt to expand our Trade with Japan, edibles must be attractive and fresh while non-edibles must be delivered price competitively.

Japan can use more marine products but is leaning toward farmed salmon even though the "old timers" prefer the wild stock. Year round delivery of fresh, specific sized, and net-mark free has, and will continue to, really hurt us. Energy dependant as they are, the Japanese importers will continue to diversify their fuel suppliers, not wanting to get more than 20 - 25% dependant on any one source. This attitude puts a big damper on our gas line. Market growth and continued diversification of sources don't appear to mesh with a sudden Alaska supply of 14 million tons of LNG. Japan will obviously be our major LNG market target even though Taiwan and South Korea will undoubtedly take some of our product. They understand our dilemma of economy of scale and overwhelming the market. While they are sympathetic, they won't make it work for us to their peril.

Many of the people I talked with would like to see more legislators and the governor, to reassure them that Alaska wants to continue and increase trade with them. Protocol is

very important to them and while the governor made a brief visit, two or three years ago, it would be helpful if he went again.

The three trade representatives we have in our Tokyo office are superb. In addition to being bilingual, they are graciously received by all the trading company's executives with whom I met. This provides a major asset to both our visiting politicians and our company representatives who do, and will, negotiate with the Japanese. I recommend a meeting with our exporters to see if they share my opinion about the need to maintain this office. Some sort of "use-funding" plan might become necessary.

Bottom line; the trip was a real eye opener and even in their very hot, humid summer, I feel it was very beneficial. I have addresses, phone (and in most cases, fax) numbers for anyone interested.

APPENDIX B



REPRESENTATIVE JOHN J. COWDERY

February 1, 2000

Representative Ramona Barnes
State Capitol Building
Room 403
Juneau, AK 99801

Dear Representative Barnes,

From the 6th to the 13th of November, 1999, the Alaska division of the Northern Forum met in Russia to discuss the arctic, the development of the arctic and the transportation of materials across the polar ice cap. In addition to the organizers of the forum, attending the meeting were the Federal Assembly of the Russian Federation, the Interparliamentary Assembly, the Administration of St. Petersburg, the Government of the Sakha Republic, the Northern Forum International Organization, and the Resdec exhibition organization.

The initial sponsorship for the meeting was provided by the World Wildlife Fund, the US Environmental Protection Agency, The Charles Stuart Mott Foundation, The US Department of Energy, The US Agency for International Development, the John D. and Catherine McArthur Foundation, and The Center for Energy Efficiency (CENEF), a non-profit independent Russian organization founded in 1992 to promote energy efficiency and environmental protection in Russia.

The main purpose of the trip was to address recent discussion about the year 2000 turnover of the Panama Canal to Panamanian control. There were many people who had thoughts about the unusual aspects of the unique and historic waterway. There were some that believed that upon the takeover on the first of the year that tariffs would increase to the point that we should consider other routes of commercial shipments to the East Coast.

As many know, the Russian Far East has large amounts of natural resources, and in order to get these raw materials to East coast markets, they must use the Panama Canal. There has been concern among the Russians as well as among shippers, Europe and other countries that the tariffs through the Panama Canal might increase to the point that the route would prove uncompetitive. Thus, the purpose of the meeting was to explore the options of opening up the Northern Route through the icepack in the Arctic Ocean.

To do this, the meeting discussed Finnish improvements in icebreakers, for Finland leads the world in technology on icebreakers. They have joined forces with some Russian entities that furnish nuclear power for these icebreakers. The technology the Fins have created for these icebreakers is astounding. They have developed icebreakers that can go

through nine feet of ice at 16 knots (about 18.5 miles per hours) and can maintain that speed. The icebreakers have the ability to not only break the ice, but also fold and put it underneath the side-packs of ice. This gives the effect of more floatation as well as causing more natural efforts to break the ice for a wider path.

The icebreakers have 12-14 inch double hulls with a grid of quarter inch holes on the outside hull. These allow the hull to fill up with water right away. In the event that they ever get stuck in ice, the vessel can create steam between the two hulls which releases through the holes and thaws the ice on the outside of the ship. The ship also has unique propulsion that uses electric motors with generators as the power source. The motor hangs from a ball joint near the rear of the vessel. This allows the motor to be able to push the back end up, pull it down, rock the boat, or turn 360 degrees.

These vessels have made experimental trips through the icepack from the Bering Strait to Norway. They made it through in 13 days, which is a significant improvement to the canal route, which takes more than 30 days to get to the East Coast. The benefit to Alaska of the regular use of this passage would be an ability to put our natural resources in an East Coast market in less shipping time, which means a lower cost to deliver these goods. It would also effect shipping fish from Dutch Harbor, allowing our product to be delivered fresher to more consumers. Our ports would furnish the ability to repair and supply for the ships that would go through the icepack. Further, the entire West Coast could benefit from a new route to the Eastern United States.

Also discussed was that once the icebreaker cleared a path and there was a steady flow of traffic through the icepack, the ships would require very little armor, about as much as we have in Cook Inlet with Sea-Land and TOTE. Still, there would certainly be icebreakers stationed along the route available in case something happened.

Further, the group discussed the natural resources in the region, and that by opening up this route the resources could make it to market year-round. It seems this would make the most sense for Cominco. If these icebreakers open the mine for shipping, it could make for a higher profit because the operation would handle the material only one time rather than storing it and then loading it during the summer months when the port is ice-free.

A major concern of the meeting was with the nuclear power that the Russians want to furnish. There have been a lot of environmental concerns about that, because the Russians aren't known for their efficient disposal of their waste. Nonetheless, the vessels can be powered by diesel generators similar to our locomotive engines.

The day after I arrived in Russia, I attended a meeting in a Parliamentary area of a Government building. There were 250 to 300 Duma and government delegates in front

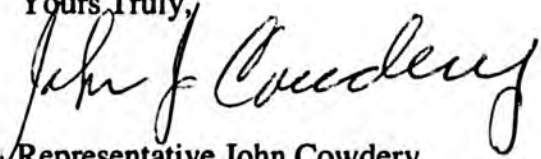
of the podium where they gave the introductions and speeches. The other distinguished guests sat by the podium, and I sat down facing them with an interpreter. The interpreter was very good; we had had some interpreting done of my remarks prior to my trip, and he read them and commented that it looked like the translation was so bad that some kids had done the translation. He chose to translate these remarks himself.

I spoke mainly about port authorities and the benefits of having a port authority similar to the Seattle/Tacoma area in which the Seattle port, the Tacoma port and the airport are all under one authority. The elected board of directors gets paid only when they have their meetings on a per diem basis. They select a port director who runs the ports on a day to day basis. The port authority is a non-profit organization and the books are always open to the public. The records are then very easy to track. It is the port director's responsibility to develop the port authority and develop marketing plans in order to attract business to develop the port with the ability to bond. There's no public money involved except that generally, the government provides the original land. If, after an audit, the port authority is found to be making a profit, the authority has to lower their tariffs in order to break even.

The Russians responded very enthusiastically to this idea. They gave me 15 minutes to talk about this situation in a round table discussion and they questioned me about this for over 45 minutes. They really liked the concept and said that they were going to put my remarks in the final report of the meeting.

All in all, the trip was very productive very well received, and I'm honored that the Northern Forum invited me to go.

Yours Truly,

A handwritten signature in cursive script, reading "John F. Cowdery". The signature is written in dark ink and is positioned above the printed name.

Representative John Cowdery

APPENDIX C

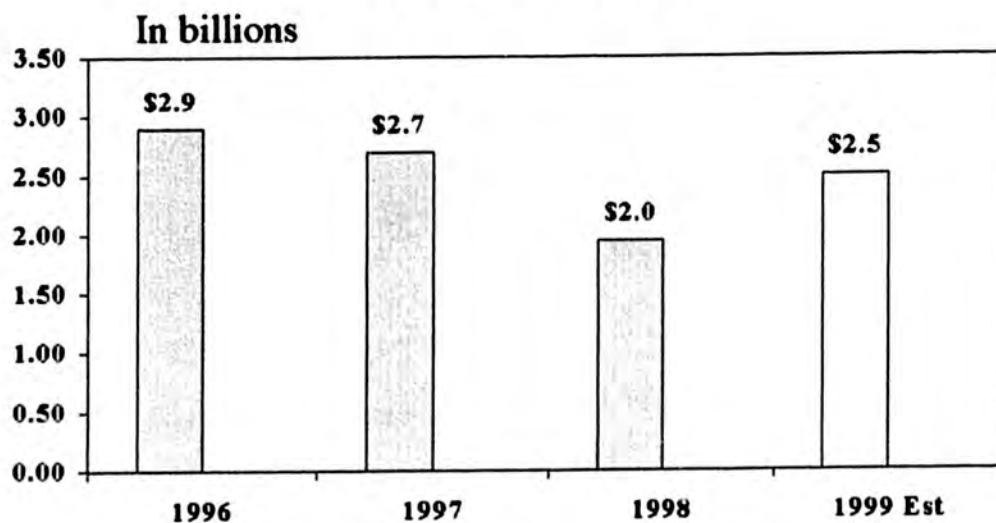
Alaska Export Update

3rd Quarter 1999

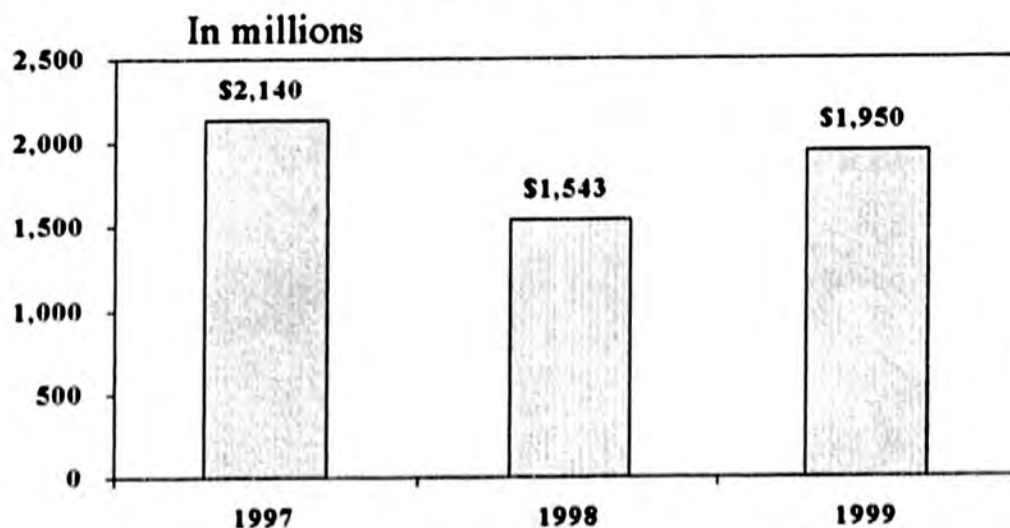
All Data compiled from US Census Bureau

Alaska's Trade Picture

Alaska's Exports Full Calendar Year



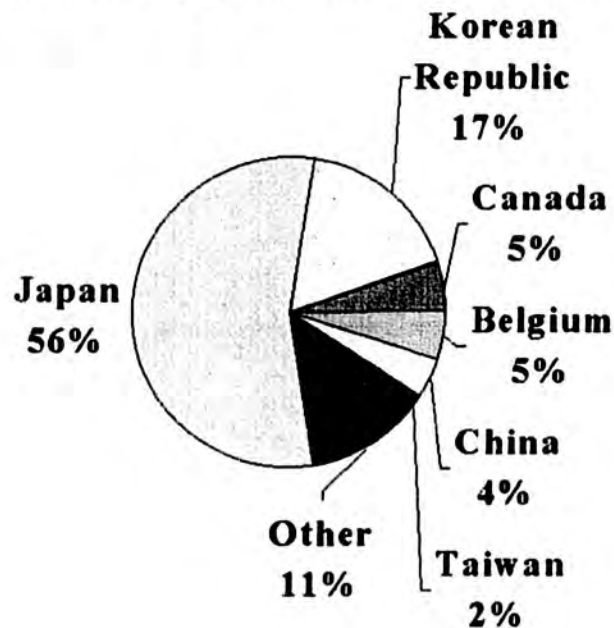
Alaska's Exports Totals through the third quarter



Alaska's Top Export Markets

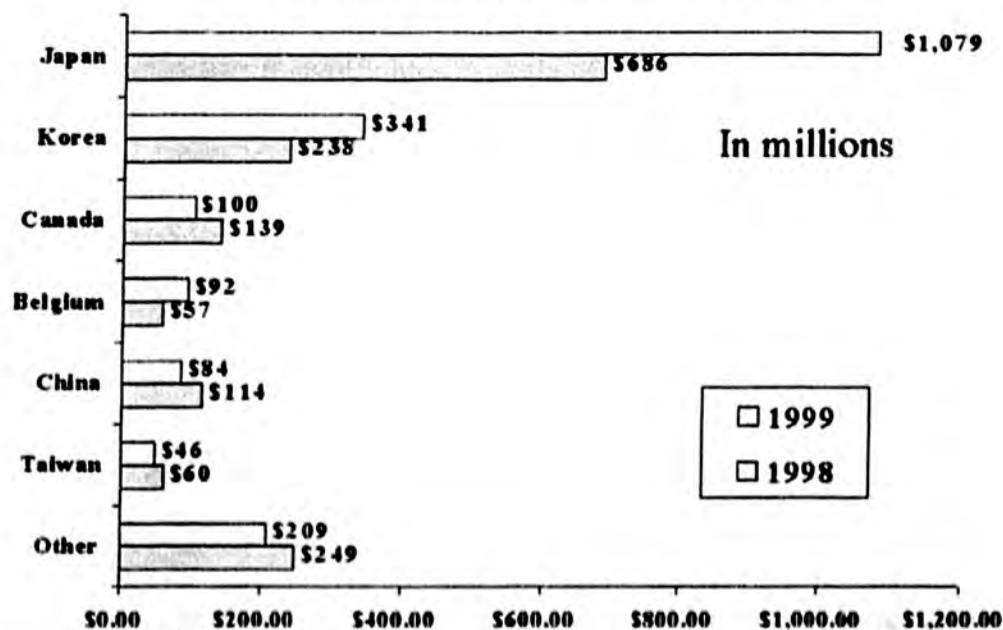
Alaska's Top Export Partners

Totals through the third quarter 1999



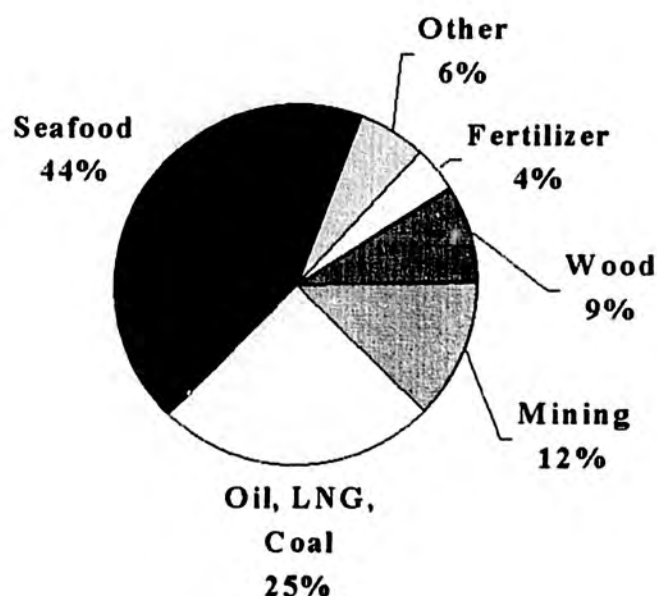
Alaska's Top Export Partners

Totals through the third quarter

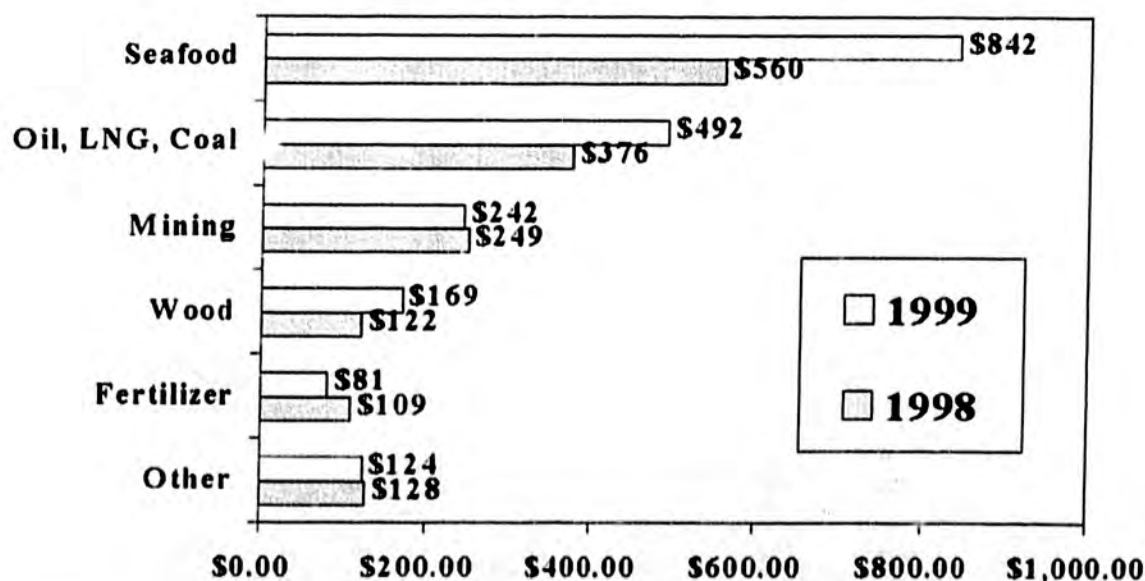


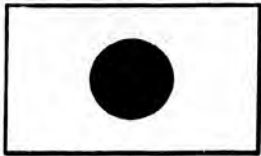
Alaska's Top Export Goods

Alaska's Top Exports Through the third quarter-1999



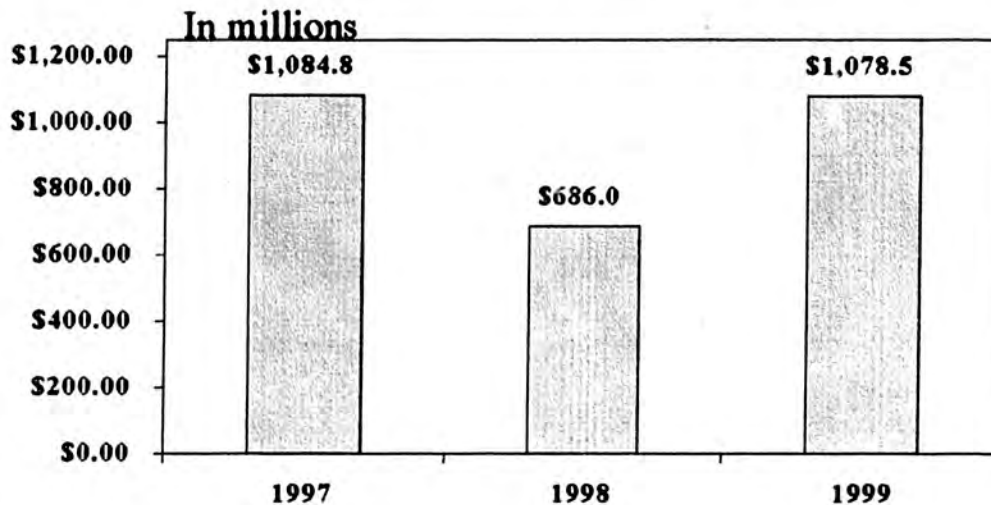
Alaska's Top Exports Through the third quarter



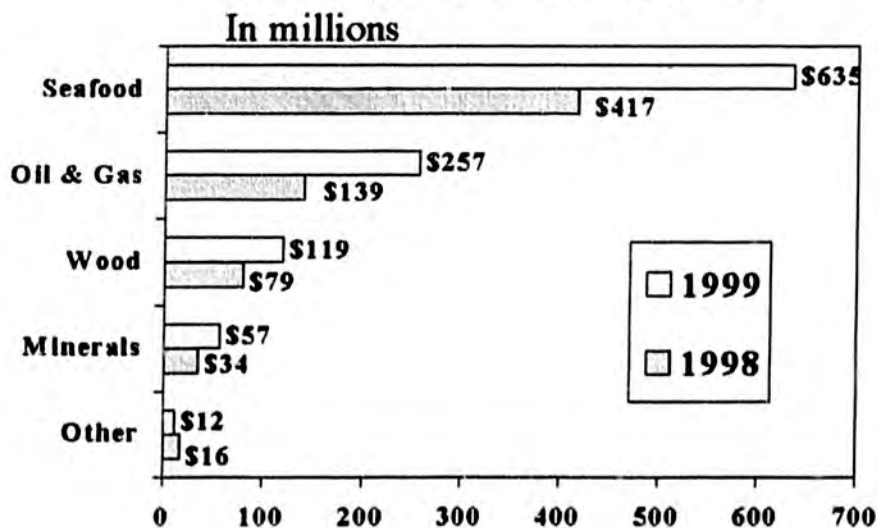


Japan – Alaska's Number One Export Market

Alaska Exports to Japan Through the third quarter



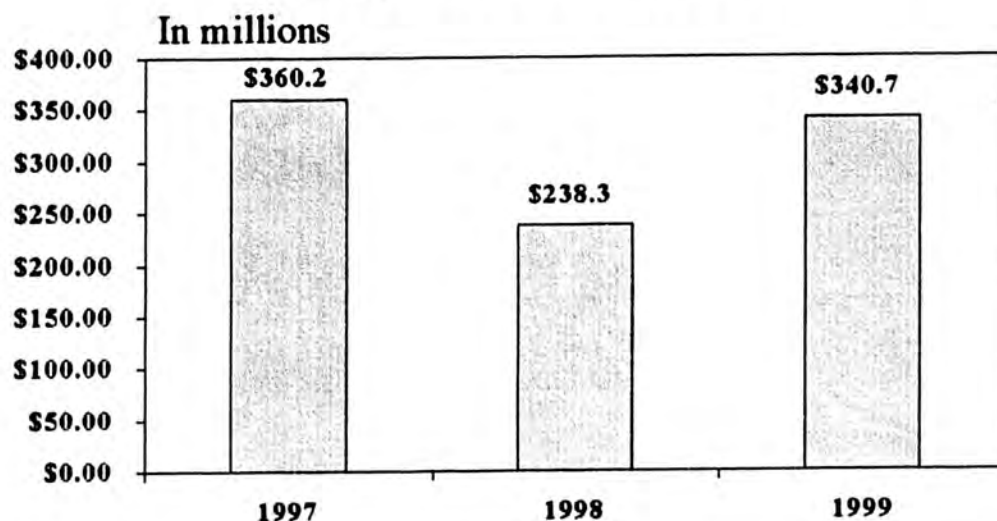
Alaska Exports to Japan Through the third quarter





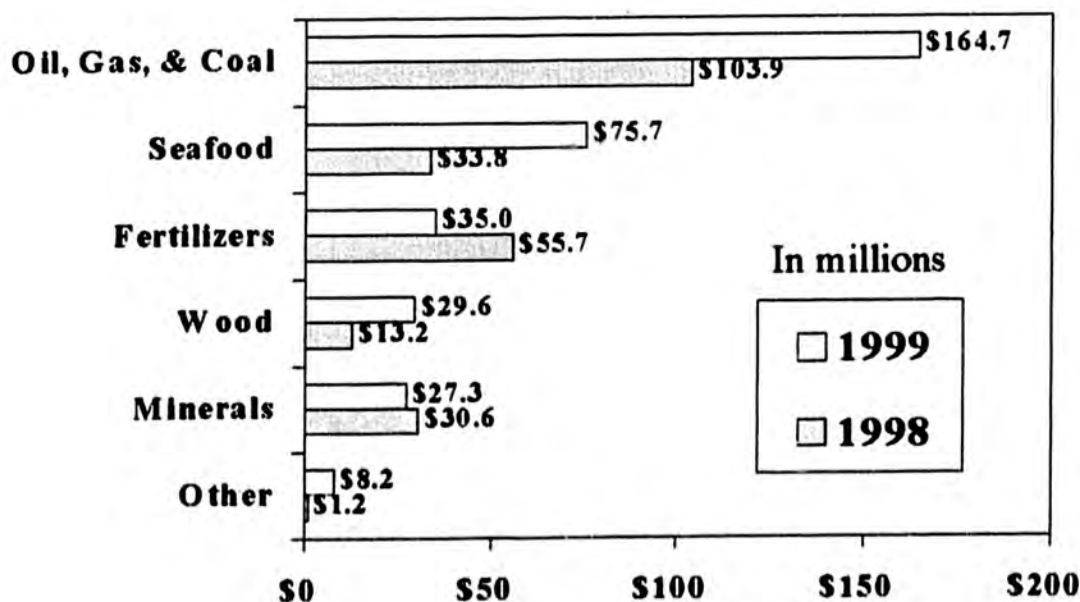
Korea – Alaska's Number Two Export Market

Alaska's Exports to Korea Through the third quarter



Source: US Dept. of Commerce

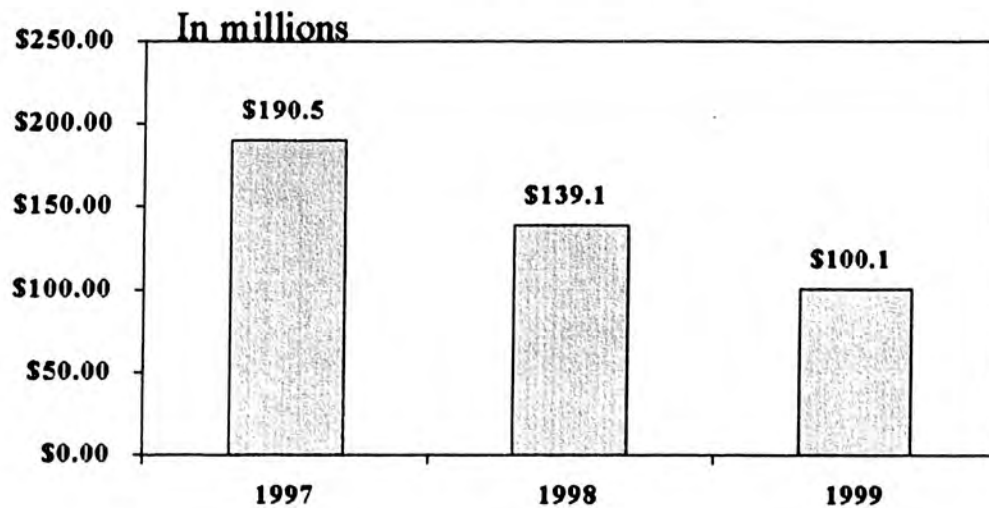
Alaska's Export to Korea Through the third quarter



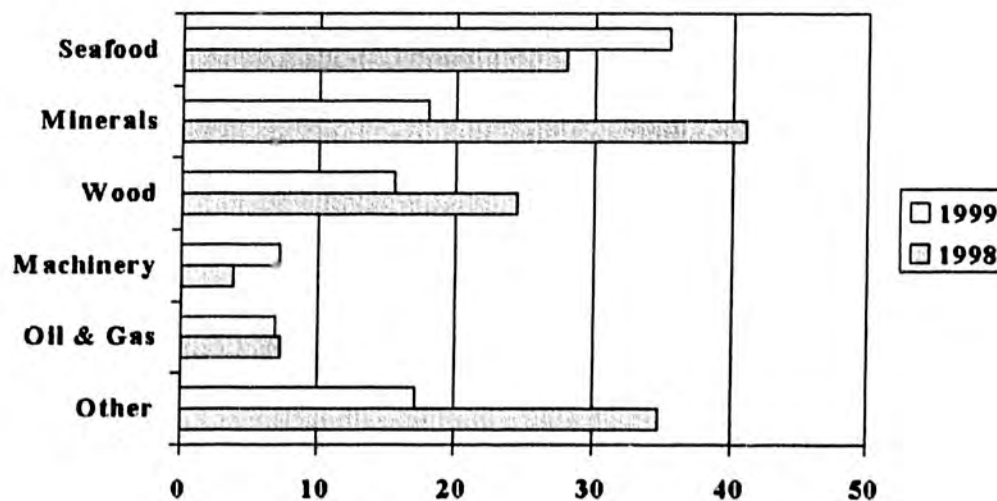


Canada – Alaska's Number Three Export Market

Alaska's Export to Canada Through the third quarter

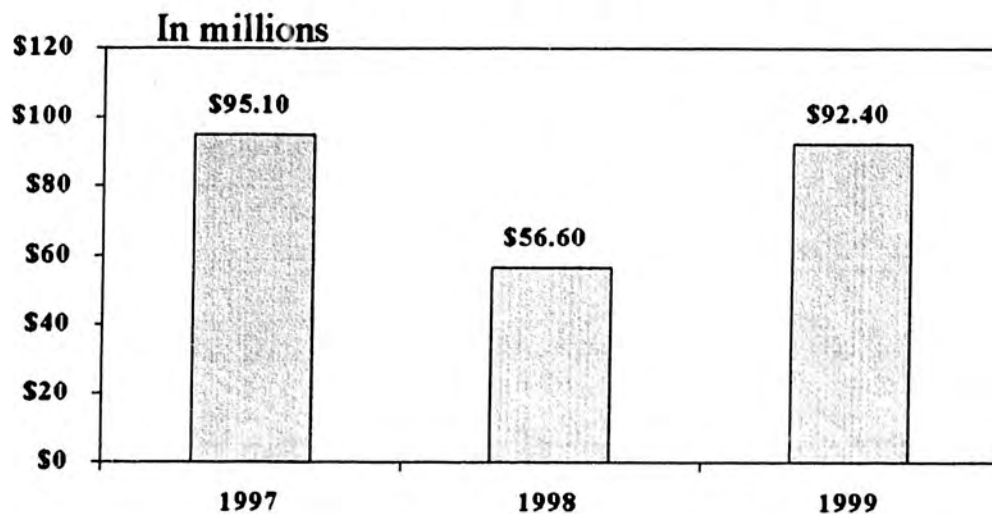


Alaska's Export to Canada Through the third quarter

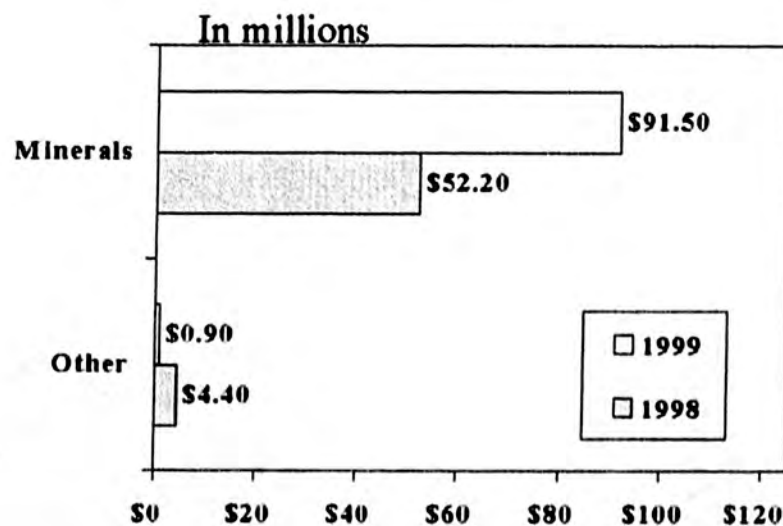


Belgium – Alaska's Number Four Export Market

Alaska's Export to Belgium Through the third quarter



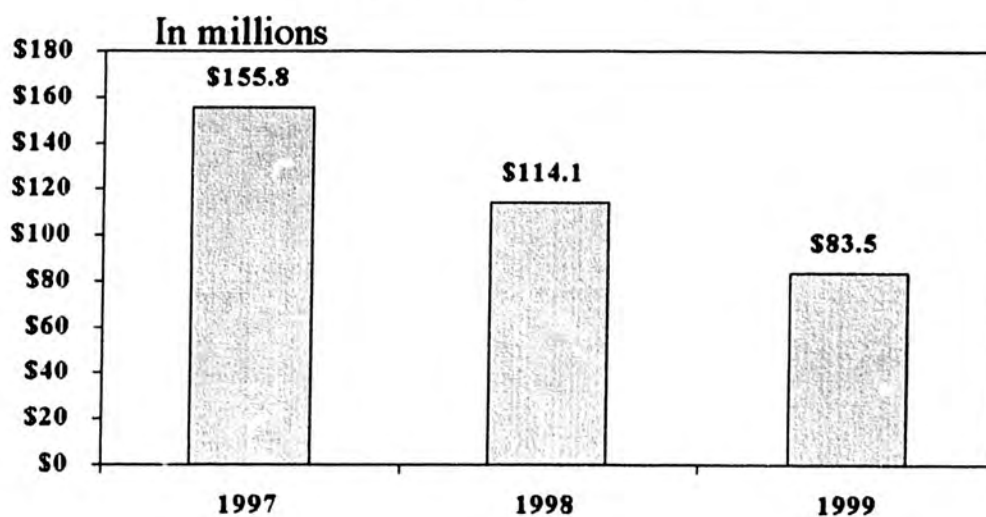
Alaska's Export to Belgium Through the third quarter



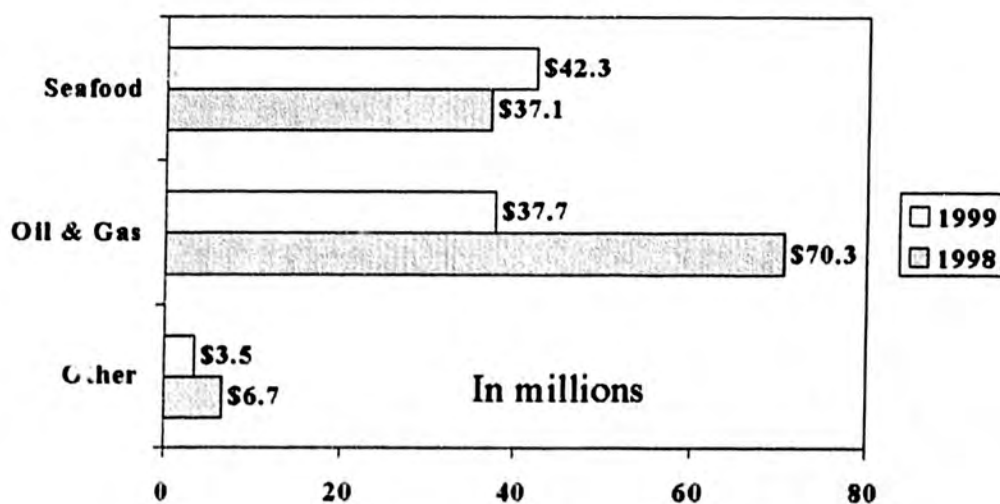


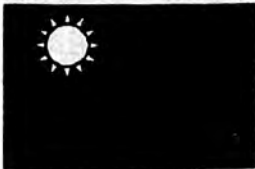
China – Alaska's Number Five Export Market

Alaska's Export to China Through the third quarter



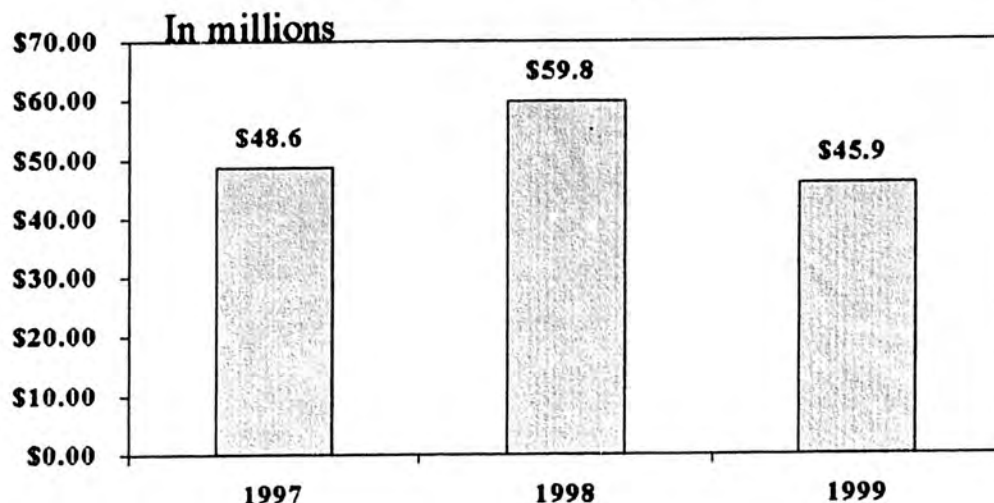
Alaska's Export to China Through the third quarter



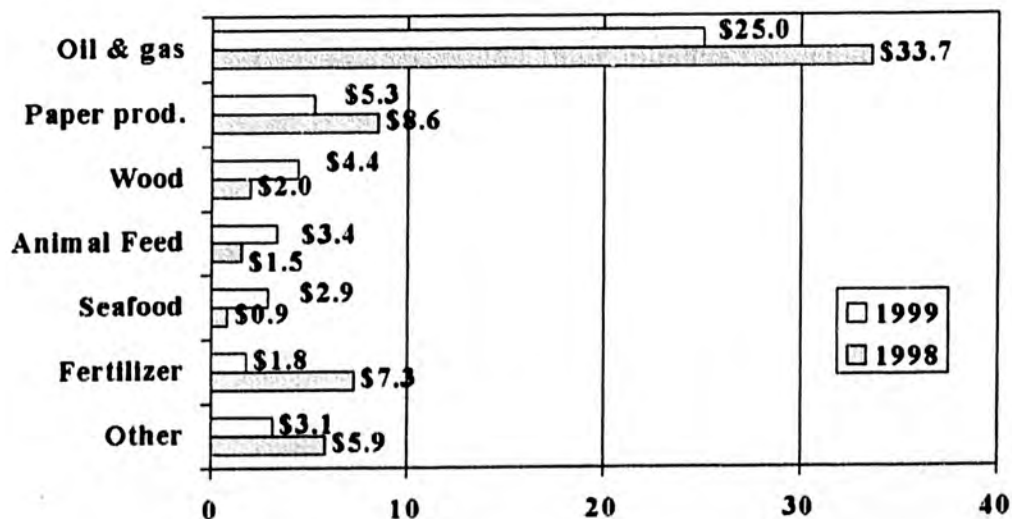


Taiwan – Alaska's Number Six Export Market

Alaska's Export to Taiwan Through the third quarter



Alaska's Export to Taiwan Through the third quarter



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Who to Contact
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Revised 12/09/99

CORRECTION

**THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
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Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
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