

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILE 8672

1229 SCOMM 46: HOUSE SPEC. COMMITTEE ON OIL AND GAS 1985-86



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Date

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House Democrats explain oil-export stand

Dear Editor:

I am writing to correct information submitted by Rep. Terry Martin in a recent letter to the editor regarding the export ban on Alaskan oil.

Mr. Martin, the House minority leader, apparently believes the House majority is not interested in lifting the ban on exporting Alaskan oil. His explanation for this is that the House Special Committee on Oil and Gas has not moved quickly enough on his resolution to lift the ban.

The truth of the situation, however, is that the committee and the House majority are very much in favor of lifting the export ban. A committee resolution to end the ban has been introduced into the House. The committee decided to draft its own resolution because it was more expedient than correcting the problems contained in Mr. Martin's version. Mr. Martin has indicated that he doesn't care which version is heard, as long as the issue moves forward.

Mr. Martin traveled to Washington, D.C., in late February to lobby for the lifting of the export ban. His efforts included sending

materials to state legislators across the nation and providing the National Conference of State Legislatures with a copy of his resolution. However, he neglected to return two weeks later to back up and defend his resolution when the issue was discussed at the conference. Instead, two other members of the Oil and Gas Committee and I attended the conference and lobbied for lifting the ban.

Those of us who support lifting the export ban believe it will result in an improved trade balance, reduced cost of transporting oil, and increased taxes to the state and federal governments. Unfortunately, powerful maritime interests have successfully spent millions of dollars to convince Congress to maintain the ban.

The Oil and Gas Committee and members of the House majority are committed to working on lifting the export ban, as we feel this is in the best interest of Alaska and the nation.

Rep. Mike Davis
Chairman
Rep. Sam Cotten
Vice-Chairman
House Special Committee
on Oil and Gas

ANC TIMES 5/8/85

House leaders sending wrong message to D.C.

4/85

To the editor:

Even though we in the House of Representatives are divided into two groups, the majority and the minority caucuses, and even though we're divided into three political parties, Republican, Democrat and Libertarian, there are certain items and issues where we unite as one, for the good of the state. There is one issue in particular that I thought we had all agreed to fight: the ban on exports of Alaska North Slope crude oil.

Some members of the House have criticized the governor for not doing enough on the issue. Others have criticized our congressional delegation for not doing enough. But what has the Democrat-led House of Representatives done? Nothing.

I once believed that we in the House were united against the ban, but now I'm not so sure. Earlier this session I introduced a resolution putting this Legislature on record as being in favor of lifting the ban. I thought it was a good idea and members of the majority caucus told me that it was. I had hoped that for this one issue, politics and special interests would take a back seat for the good of the state and the nation. Unfortunately, what I believed and hoped has not materialized.

The chairman of the House Oil and Gas Committee, Rep. Mike Davis, a Democrat from Fairbanks, has held one hearing on the bill. I repeat *one* hearing. When I testified at that hearing, I told the committee that if they wanted to change the bill, that was fine; if they wanted to amend the bill, that was fine; if they wanted to put the committee's name on the bill, that was fine; I just want to get this body on record for having done something.

Recently, I met with a member of Congressman Don Young's staff. He also met

with members of the majority caucus. You might know that Rep. Young has taken an active role in the fight to lift the ban. I must admit that I was embarrassed for the Democrat-led majority when he told me that our congressional delegation might be put to task for pushing repeal of the ban when the Legislature hasn't even passed a simple resolution in favor of lifting the ban.

Early last week, the House passed a resolution requesting our congressional delegation to support legislation on the federal level. Legislation, I might add, that is totally unrelated to Alaska. Yet we refuse to support them in their efforts to allow the export of our natural resources and, more importantly, reassert the sovereignty of our state.

Having been a committee chairman myself, I believe the Oil and Gas Committee has had plenty of time to complete any work on this bill. The chairman knows enough about the issue to pass it on. I might add that when the opportunity arose for him to travel back east to Washington, D.C., to attend a meeting on the ban, he went.

Count me in the group in favor of lifting the ban. I believe this is a clear cut issue.

The Democrats who lead the majority caucus are either in favor of lifting the ban or they aren't.

The time for action on this bill is long past. As the group leading the House of Representatives I see the responsibility as the Democrats', and theirs alone, to guide this bill through the Legislature so the people of Alaska and the other 49 states know where we stand on this issue. Since it is well within the power of the Democrat-controlled majority to do so, anything less than passage of HJR 15 is tantamount to their proceeding hand-in-hand with the forces that seek to restrict the sovereignty of our great state.

If your readers are in favor of lifting the ban on the export of Alaska oil, I ask them to please send Public Opinion Messages to their elected leaders by calling the local Legislative Information Office.

Rep. Terry Martin
R, Anchorage

Peninsula Chair

Officials say oil ban study erroneous

By DAVID RAMSEUR
News-Miner Bureau

WASHINGTON—A new report being circulated to state legislators around the country touts the merits of exporting Alaska oil but is so riddled with errors that some Alaska officials fear it may do more harm than good.

The report, by the National Conference of State Legislators, says lifting the federal ban on Alaska oil exports could increase federal revenues, stimulate Alaska oil development and enhance America's trade posture abroad.

But it contains errors that suggest Alaska would get substantially richer with no export ban and that removing the ban would put thousands of maritime industry employees out of work.

The report has been mailed to 100 state legislators around the country who next month are scheduled to meet here to consider a resolution on the issue.

State Rep. Terry Martin, R-Anchorage, who was largely responsible for production of the report, said Thursday he was disappointed with it and is organizing an effort to counter it.

That effort includes a correction sheet to be provided to the lawmakers and a public debate in early March between Alaska Sen. Frank Murkowski and Connecticut Rep. Stewart McKinney, a leading opponent of Alaska oil exports.

The eight-page report was requested by Martin at an NCSL conference last summer. It is to accompany a resolution a panel of the national group will consider during a conference here March 7-8.

If approved by the panel, the full NCSL will take it up at a Seattle convention in August.

Martin, minority leader of the Alaska House, had hoped to use the resolution to aid the state's effort to remove the federal oil export ban.

But Martin, here for a three-day NCSL conference, said Thursday the report creates the wrong impression about the oil export issue.

For example, it says removing the ban could cost the jobs of 200,000 maritime industry workers and the loss of \$300 million in federal tax dollars.

But maritime industry officials have estimated the direct job loss at only 1,700 with perhaps another 5,200 "lost job opportunities" in related fields.

The report, relying on a federal General Accounting Office study, also says Alaska would receive 60 percent of new tax revenues generated by lifting the ban.

In fact, Alaska tax laws limit the state take to about 30 percent while the federal government would get about 60 percent.

The report, which also contains a number of typographical errors, has been sent to the 100 members of NCSL's energy committee, all legislators from states across the country.

Martin said he already has begun countering the report with a mailing he made earlier this month to hundreds of state officials throughout the nation.

He said interest in the issue is increasing and said proponents of lifting the ban are picking up new allies.

car telephones 11,000 installed last year, but existing law prevents the sale.

bly go protectionist."

Maritime Unions Blockade Oil Sales To Japan—One Solution to Trade Flap

By EDUARDO LACHICA

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The U.S. could cut billions of dollars from its problem trade deficit with Japan by selling Alaskan oil to its energy-short ally.

Prime Minister Yasuhiro Nakasone has offered to buy as much of the 1.6-million-barrel-a-day North Slope production as the U.S. will allow. For every 100,000 barrels Japan would buy, the U.S. could shave \$1 billion off its \$37 billion trade deficit with the Japanese.

This tidy solution to the nation's No. 1 trade conflict counts among its proponents Interior Secretary Donald Hodel, Ambassador to Japan Mike Mansfield and even some environmental groups that say it would reduce the threat of oil spills in U.S. waters. Its most ardent ally is Sen. Frank Murkowski (R-Alaska), who has led the fight to amend the Export Administration Act, which restricts such exports.

But dogged lobbying by the maritime unions, which contributed \$2 million to the 1983-1984 campaign coffers of scores of congressmen, persuaded the Senate to shoot down the Murkowski amendment 70-20, thereby effectively banning Alaskan oil exports.

Nearly 90% of seagoing American crews depend for their livelihood on the tanker routes between Alaska and the U.S.

mainland. And while union leaders are receptive to discussion, they seem disinclined to take any action.

The Reagan administration has been somewhat circumspect on the whole subject. "It (the administration) hasn't lobbied a single member of Congress as far as we know," says Howard Marlowe, executive director of the Coalition to Keep Alaska Oil. The group is funded by maritime unions and shipping and pipeline companies.

State Department aides explain that the administration does favor Alaskan oil exports to Japan, but not "immediately." The administration appears content instead to press for less-controversial coal sales while waiting for a consensus favoring oil exports to emerge.

The administration's position has been a puzzle from the start. U.S. Trade Representative William Brock wanted to put it on the agenda of a U.S.-Japan working group formed to discuss increasing U.S. energy exports. But the first day the group met in Tokyo, Allen Wallis, the undersecretary of state for economic affairs, dropped the item from the agenda.

"You could see the Japanese faces fall apart," recalls a former U.S. member of that group. "They had earlier circulated a paper saying they were interested in that oil."

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To the Helsinki

W.S.J.

p. 28

4-29-85

Sheffield sees no help ending oil ban

By DAVID RAMSEUR
News-Miner Bureau

WASHINGTON—Alaska appears unlikely to get much help from the Reagan White House this year in its efforts to permit the sale of Alaska oil abroad, Gov. Bill Sheffield said Monday following a brief Sunday night conversation with the president.

"He smiled and shrugged his shoulders a little bit," Sheffield said of Reagan, but promised no assistance in lifting the federal ban on Alaska oil exports.

According to the governor, the president reminded him that he asked Congress to remove the ban last year but the effort was opposed by the U.S. maritime industry.

Despite Sheffield's plea for help this year, he said the president offered no assistance.

"I got no indication that they would push to change the law this year, Sheffield said.

The governor said he spoke

with Reagan about Alaska oil exports Sunday night during the after-dinner coffee and drinks portion of a White House banquet for the nation's governors.

Sheffield and other state chief executives are here for a three-day conference of the National Governors' Association, which wraps up today.

Sheffield is scheduled to remain in Washington until Thursday for meetings with top federal officials.

Among those was a late Monday session with Interior Secretary Donald Hodel and six other governors on certain federal offshore oil revenues.

Alaska stands to collect up to \$1 billion of the funds but a Sheffield aide this morning reported little progress at the meeting.

At a Monday briefing for reporters, the governor expressed frustration over the oil export issue. Last year, he said, it seemed half the Reagan cabinet

supported lifting the ban on Alaska oil sales abroad but did little to push the issue.

"It was frustrating as hell— at best," the governor said.

And he said this year appears to be little different.

He reported telling the president the election is over and in his second term Reagan could take on the politically unpopular issue. But he said he got little response.

Sheffield said permitting the sale of Alaska oil to countries such as Japan could help offset the trade imbalance and lead to the export of other Alaska goods such as coal, minerals and natural gas.

On other issues, Sheffield said:

• Alaska will file suit against the federal government unless a settlement is reached over disposition of the so-called "8g" outer continental shelf oil revenues.

The governors of seven coastal

states including Sheffield met Monday with Hodel on the issue. But a Sheffield aide said they agreed only to meet again and present Hodel a new proposal by March 31.

• He plans to meet individually with Hodel to push for a 10-year delay on the proposed North Aleutian federal offshore oil sale. Former Interior Secretary William Clark postponed the sale until August of this year but Sheffield wants a longer delay to study its impact on Bristol Bay fisheries.

• He and other governors are upset with Reagan budget cuts which will curtail programs in their states.

"We're out there on the firing line and we have to go home and increase taxes or cut budgets or take up the slack where the federal government drops off," Sheffield said. "It's hard to do that if you don't have any input into what they cut."

Stevens says Big Oil would fight to keep ban

JUNEAU (AP)—A much-ballyhooed campaign to lift the ban prohibiting export of Alaska oil will likely face opposition from the oil industry, U.S. Sen. Ted Stevens said Monday.

Stevens—in a meeting with reporters after a joint speech to the Alaska Legislature—said low oil prices and a glutted world market should work to discourage any effort to lift the federal prohibition.

"I think we may find real opposition from producers to lifting the ban," he said.

U.S. Sen. Frank Murkowski, R-Alaska, and Republican Congressman Don Young both told state lawmakers recently they thought a push to get the ban lifted could gain steam over the next couple of years.

Stevens—who said Reagan Administration officials support lifting the ban—acknowledged the idea might gain some momentum in Congress this session, especially through committee work slated by Murkowski and Young.

"But even if we could get the ban lifted, it might not mean the export of any oil," Stevens said.

An overabundance of oil and steadily dropping prices means it

wouldn't be profitable for oil companies to ship oil to Pacific Rim countries or other world markets right now, Stevens said.

The federal ban was im-

plemented in 1973 when U.S. fuel prices skyrocketed during an export embargo imposed by oil-producing countries of the Middle East.

U.S. House votes to ban oil exports

By BETTY MILLS

ADA # 4/17/85

Daily News correspondent

WASHINGTON — The House Tuesday adopted legislation which extends for five years the virtual ban on exporting Alaska oil.

The provision is included in a reauthorization of the Export Administration Act which cleared the House by voice vote after a 45-minute debate. The Alaska oil issue was only mentioned once.

Under the bill, oil produced on the North Slope can be sold abroad only if the president determines it is in the national interest and would result in lower costs to consumers. Congress must approve any such transaction.

These restrictions will remain in place until September 30, 1990.

The bill now goes to the Senate, where approval is expected shortly.

The legislation also includes an amendment sponsored last year by Alaska Sen. Frank Murkowski which orders a nine-month White House study on Alaska oil policy. The review will focus on the impact of Alaska oil exports on national security, foreign policy, employment in the maritime industry, consumers, the trade deficit and overall energy development.

The president is to develop recommendations concerning the producing and distribution of North Slope oil and submit a report to Congress within nine months of enactment of the bill.

The Alaska delegation and Gov. Bill Sheffield have pressed for a removal of the tight restrictions on exporting Alaska oil — which costs the state hundreds of millions of dollars in lost revenues.

But maritime interests and members of the House from the Northeast and Midwest have combined to retain the virtual ban on exports.

Of the 1.2 million barrels produced each day at Prudhoe Bay, about half is shipped through the Panama Canal to the Gulf and East Coasts, at additional transportation costs.

In 1973, when Congress approved the Trans Alaska

Pipeline System, it required that the oil flowing through the 800-mile pipeline be used in the United States. Congress has voted repeatedly to retain the restrictions on Alaska oil exports.

But supporters of the nine-month study provision hope a comprehensive analysis of the issue by the administration will cause Congress to remove the restrictions.

In a statement inserted in

the Congressional Record, Rep. Don Young, R-Alaska, said the ban on exports "results in inefficiencies in transportation to East Coast refineries and increased chances of environmental damage from tanker traffic, the leading source of oil spills in the world. Additionally, the state of Alaska and the federal government have lost hundreds of millions of dollars in revenue."

Oil export ban repeal 'up in air'

Empire 2/2/85

By JOHN CARTER

Empire Washington Bureau

WASHINGTON — Chances of getting congressional approval for the export of Alaska oil are slim this year, Capitol Hill observers said today.

"It's all kind of up in the air," an aide for Sen. Frank Murkowski said.

These remarks were echoed in statements by Rep. Don Young to the finance committees of the Alaska State House and Senate on Monday. Young told the committees it would be two years at the earliest before the ban could be removed.

Murkowski spearheaded a drive last

Continued on Page 12

Oil export

Continued from Page 1

year to have the export ban lifted as part of the Export Administration Act reauthorization. He failed in amending the bill to lift the ban, and it was never approved by Congress anyway, so the entire battle will come up again this session.

Murkowski was successful in getting the Senate to agree to a nine-month study of the impact of exporting Alaska oil. This study was included in the export bill and will not begin until the bill is approved by Congress.

"It's up in the air because of the South Africa issue which is included in the export bill," the aide said.

Some members of Congress are hoping to use the Export Administration Act as a vehicle to punish South Africa for its apartheid policies. There are

efforts to separate South Africa provisions from the export bill, but no one's really pushing to get the bill moving,

the aide said.

Even if the export bill comes up for consideration again, getting Congress to agree to lift the export ban will be difficult.

"Attitudes have to change about exporting oil," the aide said.

The export act failed to pass the conference committee after differing versions were passed by both the House and Senate last year. The Senate version included Murkowski's study, but that issue was not the roadblock stopping the conference committee from reaching a compromise, Murkowski said.

"The bill contained trade restrictions on South Africa which the House objected to. The conferees held on this issue," Murkowski said.

If the bill passes this session, Mur-

kowski's study will examine the ramifications of oil export.

"It would examine the impact on our allies in the Pacific, the impact on employment and on the maritime industry," Alaska's junior senator said.

"The report would look at the benefits to refiners and consumers. I think it will show that there could be significant reduction to the trade deficit if we sell our oil overseas," he said.

Current law prohibits the sale of North Slope oil to anyone except American refiners. The oil is shipped on American vessels and maritime industry officials fear lifting the ban would hurt their business.

A report prepared for Gov. Bill Sheffield by his Washington office last month noted "a major effort to modify the North Slope oil export restriction foundered in the face of maritime industry opposition."



By Zarko Karabatic

Bill Sheffield

Free Alaska's Oil

American energy consumers have a large stake in the existing federal restrictions on the export of Alaska crude oil. Because Congress must soon act on an extension of the ban, its rationale and costs deserve scrutiny. I share the considered opinion of most economists and of the federal Department of Energy that the United States would produce more oil at lower prices if the export restrictions were lifted.

The origins of the oil export ban lie in the December 1973 authorization for construction of the Trans-Alaska Pipeline System, a project that currently carries some 20 percent of U.S. oil production. Energy security concerns became paramount in the wake of the October 1973 OPEC embargo, and Congress chose to restrict the destination of oil shipped through the pipeline. At that time, when U.S. ability to obtain any imported oil was in question, the restrictions made political sense.

The energy supply picture for the United States has changed during the past 10 years, however. About half of Alaska's oil production of 1.6 million barrels a day is in excess of West Coast needs. As a result, this oil must move to the larger market of the Gulf of Mexico and the East Coast. Unfortunately, this journey is an expensive one, costing four times as much as the tanker run to California. This additional transportation cost means reduced federal tax revenues and reduced incentives for expanding Alaska oil production. Higher trade deficits and diminished national security also result from the ban on our allies.

America's Pacific Rim allies, in close proximity to Alaska, would very much like to purchase this surplus oil to diversify their sources away from the Middle East, but are prohibited from doing so by federal law. The ban is particularly unfair because no other U.S. oil production is barred from export, and the United States currently ships overseas in excess of 700,000 barrels a day of domestically produced refined petroleum products.

Along with Alaska's congressional delegation, I have proposed that Congress relax the existing export ban on Alaska oil to allow 200,000 barrels a day to be shipped to Japan on U.S.-flag tankers. Most knowledgeable observers agree that the federal government and energy consumers in the United States would experience significant benefits from the adoption of this proposal:

- The federal Treasury would realize almost \$200 million per year in increased tax revenues as a result of the higher value of oil shipped to the Pacific Rim.
- The oil industry would have a greater incentive to develop currently marginal fields on Alaska's high-cost North Slope and to explore for additional oil and gas in northern Alaska.
- The pricing power of OPEC would be moderated by the entry of Alaskan oil into Asian markets.
- U.S. national security interests would be protected by diversifying the energy supply of key U.S. allies who currently must seek energy from OPEC and Russia.
- The existing trade deficit with Japan would be reduced while the United States

would gain a bargaining tool to use on other trade issues.

• Opportunities for financially troubled countries, such as Venezuela and Mexico, to sell oil to the United States would be expanded by providing possibilities for cost-efficient oil exchanges.

In light of these convincing arguments, why does the export ban remain in effect? The Alaska oil trade currently supports a substantial portion of the U.S. merchant marine fleet. Any action that reduces the amount of time Alaska oil must spend in U.S. tankers is therefore fiercely opposed by the owners and workers supported by these ships. To accommodate their concerns, the proposal I am making would sharply limit exports, and would require the use of U.S.-flag tankers manned by American seamen and maintained in American shipyards.

Those of us who live in Alaska strongly believe in the importance of a healthy merchant marine, given our heavy reliance on waterborne commerce. Nevertheless, the Alaska oil export ban is an expensive and ineffective means of achieving it. In a recent draft report, the U.S. Department of Energy said most of the problems likely to confront the U.S. tanker fleet in the future will occur whether or not export restrictions are eased. To forgo substantial federal tax revenues, national trade benefits, improved national security and increased oil production primarily to protect narrow merchant marine interests is not sound public policy.

The writer is governor of Alaska.

TO:
FROM:
DATE:

JOHN EDGAR HOOVER
 JAMES H. CLARK
 WILLIAM L. ARMS
 ALFONSO DI LORATO
 BLAKE ELLISON
 PAUL HARRIS
 MAURICE HARTLEY
 ERIC HUNT
 PAUL TROTT

WILLIAM F. BRYAN
 ALAN C. HESTON
 DONALD W. HIGLEY
 PAUL S. HARGREAVES
 CHRISTOPHER J. BROWN
 ALAN J. BROWN
 JIM BASSER
 FRANK A. LAUTENBERG

MI. DANNY WALL, STAFF DIRECTOR
 ROBERT A. MILLER, MINORITY STAFF DIRECTOR

200 667 7070
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 United States Senate

COMMITTEE ON BANKING, HOUSING, AND
 URBAN AFFAIRS

WASHINGTON, D.C. 20510

February 7, 1984

The Honorable Frank Murkowski
 United States Senate
 Washington, DC 20510

Dear Frank:

It was good of you and Ted to discuss with me your proposed amendment to Section 7(d) of the Export Administration Act (EAA), that would authorize the export of 200,000 barrels a day of oil produced in Alaska. You made some rather cogent arguments in support of the amendment, but I find myself unable to support it for several reasons.

As you know, the renewal of the Export Administration Act has been a very controversial item and S. 979, the bill unanimously reported by the Banking Committee, is the result of compromises that forged a consensus view. The bill constitutes an integrated package of amendments to the EAA and includes a six-year extension on the prohibition of Alaskan oil. I am concerned that adding a 200,000 barrel a day exemption would complicate the consensus on our package. I believe my concern is real in light of the fact that 10 members of our Committee are among the 45 cosponsors of S. 1159, a bill to make the current ban on Alaskan oil exports permanent.

With these factors in mind, I do not believe that your amendment could be included in our bill without a roll call vote. Even if the amendment were passed in the Senate, which is unlikely, it is not an item that we could win in conference. I say this because a majority of the House members has already cosponsored a companion bill to S. 1159 that extends controls on the export of Alaskan oil for six more years.

I also have very serious doubts about the substance of your amendment. Selling 200,000 barrels a day of Alaskan oil to the Japanese would reduce our bilateral trade deficit with Japan by \$2 billion, and thus assist in disguising the true nature of our trade problem with the Japanese. As the AFL-CIO has persuasively argued before our Committee, authorizing oil exports to Japan would enable the Japanese to continue to take our raw materials while sending us their higher value-added manufactured goods. What we need to straighten out our trade problem with the Japanese is (a) for them to open up their markets to our manufactured exports, and (b) for us to reduce our budget deficit to

C 108

TO: The Honorable Frank Murkowski
February 7, 1984
Page 2 of 2

bring down interest rates and the bloated value of our dollar which is destroying our ability to compete internationally.

I appreciate very much the points you made to me on this issue, and regret that because of the above considerations I cannot support your amendment.

Sincerely,

William Proxmire
Ranking Minority Member

Jim Clark

FEB 21 1984
NORTH OIL, MINAULE,
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Let Alaska's Oil Flow Naturally

By law — indeed, five laws — the United States prohibits exports of Alaskan oil. The nominal reason is national security. The controlling reason is protectionist politics. The ban should be repealed.

Alaska's Senators, Frank Murkowski and Ted Stevens, want to amend the Export Administration Act to authorize at least some sales abroad. To win votes, they've conceded too much to protectionism. Nonetheless, because the House has already voted to extend this senseless embargo, their amendment offers the only hope for reducing its harm.

Alaska currently pumps out 1.6 million barrels a day. The idea behind the ban was that it's more efficient — and serves the national interest — to direct that oil to West Coast refineries, a short run down the coast. In fact, those refineries have been able to use only half of it. The rest goes through the Panama Canal and a Panama pipeline to refineries on the Gulf of Mexico, or all the way around South America to the Virgin Islands. What a waste, and discouragement, to Alaska's oil development.

The cost of the long-distance transportation runs as high as \$5.25 a barrel. Shipment to the logical buyers in the Pacific basin — Japan, South Korea and Taiwan — would cost \$1 or less.

The benefit would be twofold. Gulf and Caribbean refineries could get their crude oil at lesser cost from Mexico, Venezuela and Nigeria. And Alaskan oil across the Pacific would become more

competitive, and thus stimulate more exploration.

What about national security? It is said that the Arab oil embargo and resulting escalation of oil prices proved the value of holding on to every drop of American oil. So why let others buy it?

The question turns the issue upside down. Exporting Alaska's oil would enhance national security, not hurt it. The countries that would buy this oil are important allies whose access to oil is vital to American security interests. They have no oil of their own. An assured supply is especially necessary for Japan. By reducing Japanese dependence on the Middle East and also stimulating more production in Alaska, two important interests would be served.

The Murkowski-Stevens amendment would permit exports of 200,000 barrels a day and let the President stop all exports if ever the oil is needed in the United States. That's a reasonable concession to get the amendment approved but of no realistic consequence. If cut off by the Persian Gulf, Japan is not likely to be cut off also by America.

What is objectionable is the Murkowski-Stevens requirement that all exports be shipped in American vessels and that the vessels be maintained and repaired in American shipyards. These concessions, to win over the maritime unions, would increase the cost of shifting transportation patterns and reduce their value. But the ban offends economics in larger ways and violates security. Even at that price, it's worth relaxing.

NY Times 2/23/84

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Department of State

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COMMITMENT TO THIS COUNTRY. THE VULNERABILITY
OF THE KOREAN ECONOMY AND ITS DEFENSE CAPABILITIES
TO ANOTHER MIDDLE EASTERN CRISIS WOULD BE REDUCED
ACCORDINGLY. I WISH YOU EVERY SUCCESS.

BEST REGARDS,

RICHARD L. WALKER
AMBASSADOR
WALKER

W PASS

STATE FOR EAP/H BLAMBERTSON

E.C. 12356: N/A
TAGS: ENRG, EPET, ETRD, GREP, NS
SUBJECT: AMBASSADOR'S REPLY TO LETTER FROM SENATOR
FRANK N. MURKOWSKI

DEAR FRANK:

THANK YOU VERY MUCH FOR YOUR LETTER OF JANUARY 27.
YOUR VISIT WAS FAR TOO BRIEF. WE LOOK FORWARD TO
YOUR RETURN IN APRIL.

I HEARTILY AGREE WITH THE SENTIMENTS EXPRESSED
IN YOUR LETTER. WE UNDERSTAND THAT KOREA IS
THE DEVELOPING COUNTRY MOST DEPENDENT ON
IMPORTED OIL FROM THE MIDDLE EAST TO MEET ITS
ENERGY REQUIREMENTS. DURING 1983 THESE IMPORTS
AMOUNTED TO MORE THAN 139 MILLION BARRELS, OR
74 PERCENT OF KOREA'S TOTAL CRUDE OIL IMPORTS
OF 186 MILLION BARRELS.

FOR A LONG TIME KOREA HAS BEEN TRYING TO
DIVERSIFY ITS SOURCES OF IMPORTED CRUDE OIL
IN ORDER TO REDUCE DEPENDENCE ON THE MIDDLE EAST.
THE OIL SHOCKS OF THE 1970'S WERE EXTREMELY
DIFFICULT FOR EVEN THIS VERY PROSPEROUS ECONOMY
TO DIGEST. THE KOREANS HAVE BEEN TRYING, WITH
LIMITED SUCCESS, TO INCREASE OIL IMPORTS FROM
LATIN AMERICA AND INDONESIA. THEY HAVE BEEN
CONSIDERABLY MORE SUCCESSFUL IN REDUCING THEIR
DEPENDENCE ON IMPORTED CRUDE OIL BY BOOSTING
THEIR NUCLEAR PLANT CONSTRUCTION PROGRAM AND
SWITCHING FROM DIESEL TO COAL POWERED PLANTS
FOR GENERATING ELECTRICITY. NEEDLESS TO SAY,
HOWEVER, THESE PROJECTS ARE EXPENSIVE AND TAKE
TIME.

DESPITE THESE BOLD EFFORTS, KOREA, FOR A LONG
TIME TO COME, WILL NEED TO IMPORT LARGE
AMOUNTS OF OIL. THE KOREANS WOULD LIKE VERY
MUCH TO BUY EVEN A SMALL AMOUNT OF THEIR
REQUIREMENTS FROM ALASKA IN ORDER TO REDUCE
FURTHER THEIR DEPENDENCE ON THE MIDDLE EAST.
I AGREE THAT EVEN LIMITED KOREAN IMPORTS OF
ALASKAN OIL WOULD CONTRIBUTE IMPORTANTLY TO
REDUCING OUR TRADE DEFICIT WITH THIS COUNTRY
WHICH EXCEEDED DOLLARS 1.2 BILLION IN 1983, A
RECORD HIGH. YOUR APPROACH TO THE ISSUE, TO
OBTAIN A LIMITED EXEMPTION TO THE CURRENT BAN
ON ALASKAN OIL EXPORTS, AND AUTHORIZATION
FOR UNLIMITED EXPORTS AS NEW PRODUCTION COMES
ON LINE, SEEMS TO ME TO BE QUITE SENSIBLE.

SELLING ALASKAN OIL TO KOREA OBVIOUSLY WOULD
ENHANCE THE SECURITY OF AN IMPORTANT ASIAN
ALLY AND WOULD BE CONSISTENT WITH OUR MILITARY

UNCLASSIFIED

BILL SHEFFIELD
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 1, 1985

Mr. David A. Stockman
Director
Office of Management and Budget
Old Executive Office Building
Room 252
Washington, D.C. 20503

Dear Mr. Stockman:

I am writing to ask for your assistance in amending existing federal restrictions on the export of Alaska North Slope crude oil. Recent estimates by the Federal Trade Commission of the additional Windfall Profits Tax revenues accruing to the federal government as a result of lifting the ban range from 200 million to one billion dollars per year. I believe that any measure offering revenues of such magnitude deserves serious scrutiny by the President and Congress.

The enhancement in federal tax revenues from the export of Alaska oil results from reduced transportation costs. Half of North Slope production -- 800,000 barrels a day -- must undergo an expensive and inefficient journey to the U.S. Gulf and East Coasts, due to the surplus of supply on the West Coast. Reducing the transportation costs increases the wellhead value of the oil, on which taxes are based. This increase in value would also provide the oil industry with a greater incentive to develop currently marginal fields on the high-cost North Slope and to explore for additional oil and gas in northern Alaska.

Eliminating or easing Alaska oil export restrictions would also have other important national and international benefits. The existing trade deficit with Japan would be reduced while the United States would gain a bargaining tool to use on other trade issues. Opportunities for financially troubled countries, such as Venezuela and Mexico, to sell oil to the United States would be expanded by displacing Alaska oil from the Gulf and East Coasts. Finally, national security interests would be enhanced by diversifying the energy supply of key United States allies away from OPEC.

Mr. David A. Stockman

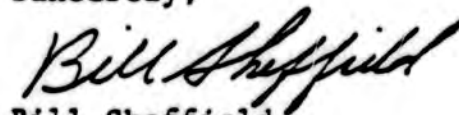
-2-

February 1, 1985

For the reasons stated above, groups as diverse as The Heritage Foundation, The Boston Globe, and The New York Times have endorsed the easing of restrictions on Alaska oil exports. However, the Administration has not conveyed a position on the issue to Congress. Your leadership in this matter is essential to ensuring that it receives proper consideration. In this regard, we have been advised by several members of Congress that the views of the Administration would be very important in their reexamination of the Export Administration Act provisions relating to Alaska oil.

I would like to meet with you to further discuss these issues in late February when I am in D.C. In the interim, please let me know if you have any questions. Thank you for your consideration of our views.

Sincerely,


Bill Sheffield
Governor

cc: The Honorable Ted Stevens, U.S. Senate
The Honorable Frank Murkowski, U.S. Senate
The Honorable Don Young, U.S. House of Representatives
Lee Verstandig, Assistant to the President



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

December 26, 1984

The President
The White House
Washington, D.C.

Mr. President:

Because you will soon be meeting with Prime Minister Nakasone of Japan, I thought it would be helpful to provide you with recent information on Alaska's efforts to expand our trade with Japan. I would also like to discuss the implementation of the Joint Statement on Japan-U.S. Energy Cooperation issued by Prime Minister Nakasone and you on November 11, 1983.

Oil Exports

The Joint Statement provided that "the U.S. will continue to keep under review the removal of restrictions on exports of domestic crude oil." Your administration has completed several analyses on the subject, including a report recently released by the Federal Trade Commission. To our knowledge, all of these investigations concluded that easing existing restrictions on the export of Alaska North Slope crude oil would result in significant national benefits, including greater federal tax revenues, a reduced trade deficit with Japan, and the production of more Alaska oil at lower prices.

The reauthorization of the Export Administration Act is still pending in Congress. I respectfully urge you to follow through on the results of your Administration's studies of oil exports and actively assist our efforts to ease existing restrictions on the export of Alaska oil. To do so would be entirely consistent with your Administration's support for free trade and U.S. energy development. I believe that it would be timely for you to do this during the 99th Congress, since Congress has expressed an interest in obtaining your views on the matter.

On September 30, 1983 I wrote to let you know of our willingness to offer a portion of the State's royalty oil for export to Japan. From our discussions with interested

reached for the 1985 fishing season which will increase the volume of product delivered by U.S. fishermen to Japanese processors in "over-the-side" joint venture operations. Even more importantly, the agreement also provides for the importation by Japan of approximately 7,000 and 20,000 metric tons of finished product which will be manufactured by U.S./Alaskan processors in 1985 and 1986, respectively. This sale of finished product to Japan, most likely surimi, will help stimulate a primary and secondary processing industry that will ultimately employ several thousand Americans.

Critical to the successful implementation of this agreement will be the ability of Japanese companies to import U.S. produced groundfish products. Current Japanese import quotas greatly restrict U.S. imports, while Japanese surimi exports to the U.S. are continuing to dramatically expand. Your insistence that the Government of Japan relax its fish-related tariff and import barriers would be useful in assuring the success of this industry-to-industry agreement which will have a beneficial impact on the U.S. balance of trade.

On another fish-related problem, recent studies have demonstrated that continued Japanese high-sea harvest of Alaska spawned salmon is seriously affecting the national harvest and management of this resource by Americans. We will be working through Alaska's Congressional delegation to encourage the U.S. State Department to initiate bilateral discussions with the Japanese which will be necessary to stop this deleterious practice.

Timber Exports

The timber industry in Alaska is geared to trade with Japan and the Pacific Rim. As a result, the Alaska industry is increasing its promotional activity in Japan. The State is working through its Alaska Asia Office in Tokyo to assist in the promotion of Alaska forest products and products made from Alaska timber in Japan.

To date, Alaska's spruce round logs and cants are selling well in Japan. However, there is a need to improve hemlock sales to Japan, as sales of hemlock products are currently reduced from previous years' totals. In another troubling area, South Africa, which has lower environmental standards and dramatically cheaper labor costs than Alaska, has captured an increasingly larger share of Japan's dissolving sulfite pulp markets from the United States, particularly

ATTACHMENT B

Spending Records of the Seafarers Political Activity Donation and
the Masters, Mates and Pilots Political Contribution Fund:
1977-78 and 1979-80

Source: The PAC Directory. 1982 Edition. PAC Researchers:
Burke, Virginia.

MDV-PARTY (Continued)
SCHLITZ GOOD GOVERNMENT COMMITTEE (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions	
					77-78	79-80
Sensenbrenner, F.	II	REP	WI	9	\$500	\$1,500

SCM PAC New York NY C00128025

SUMMARY INFORMATION:		1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:		—	\$5,186	Gross Disbursements:	—	\$5,000	% of Total Contributions & Independent Expenditures to Gross Disbursements:	—	100.0%
Total Contributions:		—	\$5,000	Total Independent Expenditures:	—	0			
OF CONTRIBUTIONS		Number of Candidates		Amount		Number of Candidates		Amount	
TO ALL CANDIDATES:		77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80
Democrats	—	—	—	—	—	7	—	\$5,000	—
President	—	—	—	—	—	2	—	\$2,000	—
Incumbents	—	1	—	\$500	—	4	—	\$3,000	—
Winners - Gen. Elec.	—	4	—	\$3,500	—	3	—	\$1,500	—
RANGE OF \$1-499	—	—	—	—	—	3	—	\$3,000	—
\$500-999	—	4	—	\$2,000	—	—	—	—	—
Republicans	—	—	—	—	—	—	—	—	—
Senate	—	—	—	—	—	—	—	—	—
Challengers	—	—	—	—	—	—	—	—	—
All Losers/Others	—	—	—	—	—	—	—	—	—
\$1000-4999	—	—	—	—	—	—	—	—	—
\$5000 & UP	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
House	—	—	—	—	—	—	—	—	—
Open Seat	—	—	—	—	—	—	—	—	—

SCOTT PAPER COMPANY PAC (SCOTTPAC)
Philadelphia PA C00097220

SUMMARY INFORMATION:		1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:		\$5,300	\$24,363	Gross Disbursements:	\$4,300	\$20,750	% of Total Contributions & Independent Expenditures to Gross Disbursements:	65.1%	100.0%
Total Contributions:		\$2,800	\$21,000	Total Independent Expenditures:	0	0			
OF CONTRIBUTIONS		Number of Candidates		Amount		Number of Candidates		Amount	
TO ALL CANDIDATES:		77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80
Democrats	1	9	\$500	\$2,700	Republicans	7	42	\$2,300	\$18,300
President	—	—	—	—	Senate	3	14	\$1,500	\$9,450
Incumbents	1	29	\$500	\$9,100	Challengers	5	17	\$1,700	\$9,400
Winners - Gen. Elec.	5	41	\$1,500	\$17,300	All Losers/Others	3	10	\$1,300	\$3,700
RANGE OF \$1-499	5	32	\$1,300	\$7,750	\$1000-4999	—	4	—	\$4,800
\$500-999	3	15	\$1,500	\$8,450	\$5000 & UP	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
House	5	37	\$1,300	\$11,550	—	—	—	—	—
Open Seat	2	5	\$600	\$2,500	—	—	—	—	—

DETAILED INFORMATION:

Office	Party	State	District	Contributions
77-78	79-80			
Symms, Steve	S	REP	ID	\$1,800

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD-
Brooklyn NY C00004325

SUMMARY INFORMATION:		1977-78	1979-80		1977-78	1979-80		77-78	79-80
Gross Receipts:		\$577,570	\$1,030,216	Gross Disbursements:	\$579,209	\$884,255	% of Total Contributions & Independent Expenditures to Gross Disbursements:	69.0%	77.4%
Total Contributions:		\$396,052	\$685,248	Total Independent Expenditures:	\$4,000	0			
OF CONTRIBUTIONS		Number of Candidates		Amount		Number of Candidates		Amount	
TO ALL CANDIDATES:		77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80
Democrats	246	292	\$374,502	\$619,898	Republicans	20	49	\$21,550	\$64,850
President	—	2	—	\$15,000	Senate	28	59	\$139,352	\$243,480
Incumbents	190	255	\$249,000	\$520,928	Challengers	37	54	\$73,950	\$93,730
Winners - Gen. Elec.	186	232	\$237,400	\$390,728	All Losers/Others	80	110	\$158,652	\$294,520
Other	—	1	—	—	—	—	—	—	—
House	238	281	\$256,700	\$426,768	—	—	—	—	—
Open Seat	39	33	\$73,102	\$70,590	—	—	—	—	—

NON-PARTY (Continued)

SEAFARERS POLITICAL ACTIVITY DONATION -SPAD- (continued)

OF CONTRIBUTIONS		Number of Candidates		Amount		Number of Candidates		Amount	
TO ALL CANDIDATES.		77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80
RANGE OF	\$1-499	8	9	\$1,850	\$1,650	\$1000-4999	114	203	\$186,952
	\$500-999	121	83	\$61,750	\$40,280	\$5000 & UP	23	47	\$145,500
									\$324,434

DETAILED INFORMATION:	Office	Party	State	District	Contributions		Office	Party	State	District	Contributions		Office	Party	State	District	Contributions			
					77-78	79-80					77-78	79-80					77-78	79-80		
Carter, Jimmy	P	DEM				\$10,000	Melcher, John	S	DEM	MT		\$5,000	Corcoran, Brian John	H	DEM	WA	2	\$2,500		
Kennedy, Edward M.	P	DEM				\$5,000	Metzenbaum, Howard	S	DEM	OH		\$5,000	Corcoran, Dan	H	DEM	CA	37	\$1,500		
Anderson, Wendell R.	S	DEM	MN		\$10,000		Miller, Andrew P.*	S	DEM	VA		\$6,000	Corman, James C.	H	DEM	CA	21	\$500	\$3,000	
Barnett, Don	S	DEM	SD		\$7,000		Miller, Zell	S	DEM	GA		\$7,500	Daschle, Thomas	H	DEM	SD	1	\$4,500	\$3,000	
Baucus, Max S.	S	DEM	MT		\$5,000	\$1,500	Moyinhan, Daniel	S	DEM	NY		\$5,000	Dellums, Ronald V	H	DEM	CA	8		\$2,150	
Bayh, Birch E., Jr.	S	DEM	IN		\$1,500	\$10,000	Nelson, Gaylord A.	S	DEM	WI		\$9,500	Denton, Lane	H	DEM	TX	11	\$3,000		
Biden, Joseph R., Jr.	S	DEM	DE		\$4,000	\$1,000	Packwood, Bob	S	REP	OR		\$6,000	Dicks, Norman D.	H	DEM	WA	6	\$2,000	\$2,750	
Bradley, Bill	S	DEM	NJ		\$5,000	\$3,000	Pell, Claiborne	S	DEM	RI		\$2,000	Dingell, John D.	H	DEM	MI	16	\$1,500	\$1,000	
Christie, Joe	S	DEM	TX		\$5,000		Pettigrew, Richard A.	S	DEM	FL		\$5,000	Dixon, Julian C.	H	DEM	CA	28	\$500	\$1,500	
Church, Frank	S	DEM	ID			\$10,000	Randolph, Jennings	S	DEM	WV		\$7,000	Donnelly, Brian J	H	DEM	MA	11	\$500	\$3,500	
Cranston, Alan	S	DEM	CA		\$6,500		Ravenel, Charles D.	S	DEM	SC		\$7,000	Dorgan, Byron L.	H	DEM	ND	At Large		\$2,000	
Culver, John C.	S	DEM	IA		\$4,000		Roy, William R.	S	DEM	KS		\$3,000	Dyson, Royden P.	H	DEM	MD	1		\$2,000	
D'Amato, Alfonse M.	S	REP	NY		\$1,500		Sarbanes, Paul S.	S	DEM	MID		\$3,000	Eckhardt, Robert	H	DEM	TX	8	\$1,500	\$3,000	
Dixon, Alan J.	S	DEM	IL		\$3,000		Sasser, James Ralph	S	DEM	TN		\$2,500	Eilberg, Joshua	H	DEM	PA	4	\$3,000		
Dodd, Christopher J.	S	DEM	CT		\$10,000		Schultz, William R.	S	DEM	AZ		\$5,000	Fazio, Vic	H	DEM	CA	4	\$1,000	\$1,500	
Durkin, John Anthony	S	DEM	NH		\$10,000		Stevens, Ted	S	REP	AK		\$7,500	Ferraro, Geraldine A	H	DEM	NY	9	\$1,500	\$5,934	
Eagleton, Thomas F.	S	DEM	MO			\$7,500	Stewart, Donald	S	DEM	AL		\$5,000	Fithian, Floyd J.	H	DEM	IN	2	\$3,500	\$3,000	
Edmondson, Ed	S	DEM	OK		\$5,000		Talmadge, Herman	S	DEM	GA		\$3,000	Flippo, Ronnie Gene	H	DEM	AL	5	\$500	\$1,500	
Flaherty, Pete	S	DEM	PA			\$5,000	Addabbo, Joseph P	H	DEM	NY	7	\$2,050	Florio, James J.	H	DEM	NJ	1	\$1,500	\$5,500	
Flowers, Walter	S	DEM	AL		\$4,852		Albosta, Donald	H	DEM	MI	10		\$4,000	Foley, Thomas S.	H	DEM	WA	5	\$500	\$3,000
Ford, Wendell H.	S	DEM	KY			\$5,000	Allegretti, Don	H	DEM	KS	5	\$1,500	Ford, Harold E.	H	DEM	TN	8		\$2,000	
Glenn, John	S	DEM	OH			\$5,000	Ambro, Jerome A.	H	DEM	NY	3	\$1,000	Ford, William David	H	DEM	MI	15	\$1,100	\$1,500	
Gojack, Mary L.	S	DEM	NV			\$2,500	Anderson, Glenn M.	H	DEM	CA	32	\$1,500	Frost, Martin	H	DEM	TX	24	\$3,800	\$1,300	
Gravel, Mike	S	DEM	AK			\$5,000	Ashley, Thomas L.	H	DEM	OH	9	\$500	Gammage, Robert A	H	DEM	TX	22	\$3,500	\$500	
Gunter, Bill	S	DEM	FL			\$5,000	Aucoin, Les	H	DEM	OR	1	\$4,000	Gaydos, Joseph M.	H	DEM	PA	20	\$1,000	\$5,500	
Hart, Gary W.	S	DEM	CO			\$5,000	Bailey, Donald Allen	H	DEM	PA	21	\$1,000	Gray, William H III	H	DEM	PA	2	\$500	\$1,500	
Haskell, Floyd K.	S	DEM	CO		\$10,000		Baldus, Alvin	H	DEM	WI	3		\$1,500	Green, Mark J	H	DEM	NY	18		\$5,000
Hathaway, William D.	S	DEM	ME		\$5,000		Barnes, Michael Darr	H	DEM	MD	8	\$1,000	Guarini, Frank J.	H	DEM	NJ	14	\$500	\$2,000	
Heflin, Howell Thomas	S	DEM	AL		\$5,000		Barragan, Polly Baca	H	DEM	CO	4		\$2,500	Hall, Tony P	H	DEM	OH	3		\$2,000
Hollings, Ernest F.	S	DEM	SC			\$9,000	Bauman, Robert	H	REP	MD	1	\$1,000	Hannaford, Mark W	H	DEM	CA	34	\$1,850		
Holtzman, Elizabeth	S	DEM	NY			\$9,500	Baumann, Archie	H	DEM	IN	6		\$1,500	Hertel, Dennis M	H	DEM	MI	14		\$2,000
Huddleston, Walter D.	S	DEM	KY		\$1,500		Baumann, James L.	H	DEM	OH	12	\$1,500	Hindes, Gary E	H	DEM	DE	At Large	\$1,500	\$500	
Inouye, Daniel K.	S	DEM	HI			\$4,000	Biaggi, Mario	H	DEM	NY	10	\$2,000	Hollenbeck, Harold C	H	REP	NJ	9		\$2,500	
Javits, Jacob K	S	REP	NY			\$5,000	Boggs, Lindy (Mrs.)	H	DEM	LA	2	\$2,000	Howard, James J.	H	DEM	NJ	3	\$1,500	\$5,500	
Johnston, J. Bennett.	S	DEM	LA		\$6,000		Bolling, Richard	H	DEM	MO	5	\$500	Huckaby, Thomas	H	DEM	LA	5	\$1,500	\$500	
Krueger, Robert	S	DEM	TX		\$5,000		Bonior, David E.	H	DEM	MI	12	\$1,000	Johnson, Harold T.	H	DEM	CA	1	\$500	\$2,500	
Levin, Carl	S	DEM	MI		\$10,000	\$250	Burleson, Bill D.	H	DEM	MO	10		\$3,000	Kogovsek, Ray	H	DEM	CO	3		\$4,500
Long, Russell B	S	DEM	LA			\$5,000	Burstein, Karen S.	H	DEM	NY	5		\$7,500	Lantos, Thomas P.	H	DEM	CA	11		\$2,000
Magnuson, Warren G	S	DEM	WA			\$10,000	Burton, John	H	DEM	CA	5	\$2,000	Leach, Claude "Buddy"	H	DEM	LA	4		\$1,500	
Martin-Trigona,	S	DEM	IL			\$5,000	Carney, Charles	H	DEM	OH	19	\$1,500	Lederer, Raymond F	H	DEM	PA	3	\$1,000	\$1,625	
Mathias, Charles	S	REP	MD			\$7,000	Clark, Arthur Joseph	H	DEM	MA	4		\$2,790	Leland, George	H	DEM	TX	18		\$1,500
McGovern, George	S	DEM	SD			\$10,000	Clay, William L.	H	DEM	MO	1	\$2,000	Lieberman, Joseph	H	DEM	CT	3		\$2,500	

*See Section IV for independent expenditures made by this PAC during 1979-80 in support of or against the candidate.

President	11	\$1,900	Senate	11	\$1,900	House	22	\$5,400
Incumbents	30	\$9,000	Challengers	3	\$700	Open Seat		
Winners - Gen. Elec.	26	\$7,500	All Losers, Others	7	\$2,200			
RANGE OF	\$1-499	31	\$1000-4999	1	\$1,000			
	\$500-999	1	\$5000 & U.P.					

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND

Washington DC C00073056

SUMMARY INFORMATION		1977-78	1979-80			1977-78	1979-80			77-78	79-80		
Gross Receipts:		\$113,448	\$300,357	Gross Disbursements:		\$56,079	\$167,256	% of Total Contributions & Independent Expenditures to Gross Disbursements		38.4%	68.1%		
Total Contributions:		\$21,550	\$113,950	Total Independent Expenditures:		0	0						
OF CONTRIBUTIONS		Number of Candidates		Amount		Number of Candidates		Amount		Number of Candidates		Amount	
TO ALL CANDIDATES:		77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80
Democrats		14	96	\$19,050	\$104,450	Republicans		1	10	\$2,500	\$9,500	Other	
President		—	1	—	\$1,000	Senate		3	19	\$5,000	\$42,000	House	
Incumbents		11	96	\$16,050	\$107,300	Challengers		3	3	\$4,500	\$2,650	Open Seat	
Winners - Gen. Elec.		12	72	\$18,600	\$65,450	All Losers, Others		3	34	\$2,950	\$48,500		
RANGE OF		\$1-499	—	2	\$400	\$1000-4999		14	32	\$21,050	\$48,500		
		\$500-999	1	66	\$500	\$5000 & U.P.		6		\$31,500			

DETAILED INFORMATION:	Office	Party	State	District	Contributions		Office	Party	State	District	Contributions		Office	Party	State	District	Contributions	
					77-78	79-80					77-78	79-80					77-78	79-80
Bayh, Birch E., Jr.	S	DEM	IN		\$4,500		Gravel, Mike	S	DEM	AK		\$5,000	Packwood, Bob	S	REP	OR		\$2,500
Church, Frank	S	DEM	ID		\$5,000		Inouye, Daniel K.	S	DEM	HI		\$2,000	Stewart, Donald	S	DEM	AL	\$3,000	\$2,500
Cranston, Alan	S	DEM	CA		\$2,500		Magnuson, Warren G	S	DEM	WA		\$5,000	Burton, John	H	DEM	CA	5	\$1,000
Durkin, John Anthony	S	DEM	NH		\$2,000		Mathias, Charles	S	REP	MD		\$2,500	Burton, Phillip	H	DEM	CA	6	\$1,000

NON-PARTY (Continued)

MASTERS, MATES AND PILOTS POLITICAL CONTRIBUTION FUND (continued)

DETAILED INFORMATION:	Office	Party	State	District	Contributions		Office	Party	State	District	Contributions		Office	Party	State	District	Contributions			
					77-78	79-80					77-78	79-80					77-78	79-80		
Ferraro, Geraldine A	H	DEM	NY	9	\$2,000		Murphy, John M.	H	DEM	NY	17	\$3,000	\$6,500	Wolpe, Howard	H	DEM	MI	3	\$5,000	
Lowry, Michael E.	H	DEM	WA	7	\$4,000		Nolan, Richard	H	DEM	MIN	6	\$2,000		Young, Don	H	REP	AK	At Large	\$2,500	\$500

MASTERS MATES & PILOTS PENSIONERS' ACTION FUND

New York NY C00012013

SUMMARY INFORMATION:		1977-78	1979-80			1977-78	1979-80			77-78	79-80			
Gross Receipts:		\$21,584	\$253,394	Gross Disbursements:		\$167,994	\$79,248	% of Total Contributions & Independent Expenditures to Gross Disbursements		2.3%	12.9%			
Total Contributions:		\$3,970	\$10,250	Total Independent Expenditures:		0	0							
OF CONTRIBUTIONS		Number of Candidates		Amount		Number of Candidates		Amount		Number of Candidates		Amount		
TO ALL CANDIDATES:	77-78	79-80	77-78	79-80		77-78	79-80	77-78	79-80	77-78	79-80	77-78	79-80	
Democrats	3	2	\$3,970	\$10,250	Republicans					Other				
President	-	1	-	\$10,000	Senate					House	3	1	\$3,970	\$2,500
Incumbents	2	2	\$2,485	\$10,250	Challengers	1	\$485			Open Seat				
Winners - Gen. Elec.	2	-	\$2,485	-	All Losers, Others	1	\$485	810,250						



nmw
Alaska

April 1, 1985

Mr. William T. Archey
Acting Assistant Secretary
for Trade Administration
U.S. Department of Commerce
Room 3898B
14th Street between Constitution Avenue
and E Street, N.W.
Washington, D.C. 20230

Re: Exportation of Cook Inlet Crude Oil

Dear Mr. Assistant Secretary:

We understand that the State of Alaska intends to seek authority to export 2.2 million barrels of Cook Inlet crude oil per year. As you are aware, any such sales could only occur following an application for and the issuance of a validated license pursuant to 15 C.R.F. § 377.

The Coalition to Keep Alaska Oil represents a broad and diverse group of entities, including labor, consumer, environmental, agricultural, and business organizations. The Coalition believes exports of our limited reserves of crude oil would be contrary to the consumer, economic, and security interests of the United States.

As you probably are aware, the State of Alaska has continually sought to export crude oil. Congress, however, has consistently placed restrictions on such exports. In 1973, when Congress passed the Trans-Alaska Pipeline Authorization Act, it established a clear-cut national policy that Alaskan crude oil should be used domestically. Congress reaffirmed and strengthened that policy in 1977 and 1979 by amending the Export Administration Act to restrict the export of Alaskan North Slope crude oil to certain limited cases and only pursuant to specific Presidential findings and subsequent Congressional approval. Most recently, in 1984, the U.S. Senate voted 70-20 against even limited exports of Alaskan North Slope crude oil and 272 Members of the House of Representatives co-sponsored legislation to indefinitely extend the restrictions contained in section 7(d) of the Export Administration Act of 1979. Pending legislation to reauthorize the Act would extend these restrictions for 5 years.

Mr. William T. Archey
April 1, 1985
Page Two

Exports of Cook Inlet crude oil are likely to be inconsistent with the national interest and to harm members of the Coalition. Given our continued concern about exports and the immediate and irreparable harm even limited exports are likely to cause, we request that we timely be advised of the receipt by the Department of Commerce of any application for a validated license to export Cook Inlet crude oil and that we be afforded an opportunity to comment while the application is being reviewed.

I myself or a member of the Coalition will telephone your office to arrange a mutually convenient time when we can meet to discuss our concerns and to agree upon a method for ensuring that your agency has an opportunity to consider our views should it receive a validated license application.

Sincerely yours,

Howard Marlowe, Director

HM:kac

cc: The Honorable Malcolm Baldrige
The Honorable Donald P. Hodel



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

16 APR 1985

Mr. Howard Marlowe
Director
Coalition to Keep Alaska Oil
815 16th Street, N.W.
Suite 309
Washington, D.C. 20006

Dear Mr. Marlowe:

Thank you for your April 1, 1985 letter regarding a possible request to export crude oil from Alaska's Cook Inlet.

Crude oil exports are restricted by five separate and often overlapping statutes. The Department reviews and acts on all export license applications in conformance with the provisions of the appropriate statutes and the Export Administration Regulations. These applications and the supporting documentation that accompany them are treated as company confidential as required by Section 12(c) of the Export Administration Act. Accordingly, we do not discuss the content of individual applications with those who are not parties in the proposed transactions. Thus, we would not be able to notify you of the receipt of an application to export Cook Inlet crude oil, nor would we be in a position to discuss the details of any such application or even comment on whether we had received an application.

However, the Department's Export Administration Regulations are drafted in a manner that effectively blocks the export of virtually all domestically produced crude with the exception of certain exchanges with adjacent foreign countries to facilitate transportation. Currently, the export restrictions embodied in these statutes can only be overcome through the issuance of a national interest finding. The President would be required to issue the finding for four of the five statutes. The Secretary of Commerce would be required to issue the finding under the Energy Policy and Conservation Act (EPCA). As part of a national interest finding, we would be required to amend our regulations. Amendments of our regulations under the provisions of EPCA, the statute most applicable to Cook Inlet oil, would require a notice of proposed rulemaking before any final action is taken. You, of course, would have an opportunity to comment on our proposal at that time.



I appreciate your interest in the Department's short supply export control program. Mr. Walter J. Olson, Deputy Assistant Secretary for Export Administration, would be pleased to meet with you and other representatives of the Coalition to hear your concerns. Mr. Olson may be reached on 377-5491.

Sincerely,

A handwritten signature in dark ink, appearing to read "William T. Archey". The signature is fluid and cursive, with the first name "William" and last name "Archey" clearly distinguishable.

William T. Archey
Acting Assistant Secretary
for Trade Administration



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


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Date

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STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 485-4841

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HJR 66

HJR 66 proposes to implement a national crude oil import fee. The premise of this resolution, which is embodied in similar proposals before Congress, is that the federal deficit will be lowered and the economies of oil-producing states will be enhanced by artificially raising the price of oil through imposition of an import fee.

Although using this approach to raise oil prices is appealing, the import fee is fraught with problems. In light of HJR 66 being directed toward the President, leading members of Congress, and Alaska's congressional delegation, this resolution should be reviewed in terms of both national policy and the United States' economic ties with other nations.

An import fee is opposed by several major oil producing companies, including Exxon, Mobil and Chevron, as well as by the American Petroleum Institute and the Independent Petroleum Association of America.

Oil industry opposition is largely based on the fact that most major oil companies import much of their product. Vertically integrated corporations, by paying a higher price for imported oil, will also be placed in the position of having to charge more for refined products. Consequently, these companies will incur greater market competition from foreign refiners.

The oil industry also views the import fee as a tax which, by propping up oil prices, will also result in increased windfall profit and corporate income taxes. An import fee, by raising the cost of feedstock, would also result in a direct increase in consumer energy costs. This last factor has led to regional divisiveness on the import tax issue between the eastern and western states.

Exxon has stated that "These additional fees, which are in effect taxes, would increase consumer prices, increase inflation and reduce real gross national product. In addition, they would distort competition among fuels, place energy-intensive U.S. manufacturing industries at a competitive disadvantage against foreign competition and fall inequitably on different regions of the country."

Hardest hit among U.S. industries would be steel, aluminum and petrochemicals, since these major industries would be forced to compete on foreign markets with the disadvantage of paying significantly higher prices for oil. Higher prices for products of U.S. manufacture would likely result in an increase in our foreign trade deficit, since the added cost of the import fee would make the cost of these products less competitive.

An import fee would also hurt major oil exporters to the U.S., such as Mexico, which are already having great difficulty in repaying loans to U.S. banks. Canada and Venezuela would also suffer economically because of their high volume of oil exports to the U.S.

Other problems with the import fee are its uncertain revenue producing capabilities, its effect on raising inflation, its negating of the gains realized by the recent fall in the value of the U.S. dollar, and its means of finding additional revenues to offset President Reagan's proposed tax cuts.

In terms of reducing the federal deficit, the possibility arises that the national economy, spurred on by lower oil prices, will generate more deficit-reduction dollars than would be realized through the import fee. In this sense, the slowing of national economic growth through imposition of the import fee might work against attempts to lower the deficit.

Lower oil prices have also resulted in lower consumer prices and lower rates of inflation. It is difficult to understand how increasing consumer costs, thus lowering national savings rates, and increasing inflation will help to lower the deficit. The improvement in foreign markets for U.S. products, enhanced by devaluation of the U.S. dollar, would also be lost through imposition of an import fee. At the same time, import fees that are tied directly to the price per barrel of oil would generate highly fluctuating revenues dependent on the number of barrels imported into the U.S.

Another difficulty is the possibility that the imposition of an import fee might take effect or be in effect at a time when oil prices are higher than they are at this time. Higher oil prices would warrant the lifting of the fee, though both consumers and industry would argue that imposing the fee and then removing it would remove stability in the marketplace.

POLITICS AND POLICY

An Energy Tax Boost Is Appealing to Congress As Oil Prices Decline, but the Issue Is Divisive

By JEFFREY H. BERNBAUM
And DAVID RUGGLES

Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—There's no such thing as a perfect tax.

That's what more and more lawmakers are realizing about energy taxes. As oil prices have fallen, Congress has focused on energy taxes as a relatively painless way to raise revenue to help address two of its most pressing legislative problems: deficit reduction and tax overhaul.

But legislators are finding that none of the energy levies under discussion, such as an oil-import fee and an increase in the federal gasoline tax, are easy or painless. Energy taxes are divisive. They pit lawmakers from one part of the country against those from another, and they set industries to fighting. They also are believed to fall most heavily on taxpayers who are least able to pay. And they could alienate some allies of tax overhaul.

Indeed, the whole question of whether to raise revenue is still in dispute. "It's a very, very tricky issue," says Joseph Minarik, a tax expert at the Urban Institute, a nonprofit Washington think tank. "It will be very hard politically to come to any sort of agreement."

Door Is Opened

An intense debate about energy taxes looms. President Reagan has opened the door for the Senate Finance Committee to include either an oil-import fee or an increase in the federal gasoline tax in its tax-overhaul bill. His only stipulation: The extra funding can be used to keep the package from raising less revenue than current law, but not to increase revenues above current levels.

The tax-writing Finance Committee appears to be moving to take advantage of the president's offer. Demands by the president and panel members to lower tax rates and to retain or enhance tax preferences in the tax-overhaul bill will cost in excess of \$100 billion over five years. The committee likely will need to look outside of the income tax to find that much money.

"No matter how you jimmy it and pry it, you just can't get there by moving the shells around," says Finance Chairman Bob Packwood (R., Ore.). He has said an oil-import fee or gasoline-tax increase could be part of his tax-revision bill.

Powerful Challenge

But Sen. Packwood and the president are being challenged by powerful colleagues, notably Senate Majority Leader

Major Energy Tax Proposals

Revenue raised over five years
(In billions of dollars)

Oil import fee

\$4 a barrel

\$42.4

\$8 a barrel

\$81.4

\$8 with 50% windfall profits tax

\$96.2

Gasoline tax

Increase of 21 cents a gallon

\$92.0

BTU tax

6% tax on value of all energy products

\$102.2

Source: Treasury Department

Robert Dole (R., Kan.) and the chairman of the Senate Budget Committee, Pete Domenici (R., N.M.). These lawmakers, and what Sen. Dole estimates is a majority of the Senate, believe that any new revenue should be used to reduce federal budget deficits and not to pay for what many believe to be the luxury of lowering tax rates, the main attraction of tax overhaul.

Much of this deficit-comes-first talk is a thinly veiled effort to kill the tax-overhaul bill. Many senators, like Sen. Domenici, want to avoid the major tax increase for business that is an integral part of the tax-overhaul package. But, at least for now, a petition seeking to set aside tax revision in order to confront the deficit, has been slowed. Senate Democrats are hesitating to sign it, hoping that Republicans will act themselves to sink their own president's top domestic initiative.

The oil-import fee, which commands the support of several of the most senior members of the Finance Committee, would appear to be the Senate's first choice. But beneath the surface lies a caldron of problems.

Chief among these is the regional warfare that an oil-import fee would ignite. Lawmakers from states that produce their own oil, primarily in the Southwest and the West, are eager for the tax. It would prop up the falling price of oil and help their already hurting home-state drillers. But lawmakers from places distant from oil fields, especially the Northeast, would feel only the pinch from higher oil prices, particu-

larly in heating fuel. Sen. Claiborne Pell (D., R.I.), along with 12 colleagues, has introduced a resolution opposing the import fee.

This dispute would tend to make enemies of friends of tax overhaul, a controversial measure that needs as many friends as it can get. On the Finance Committee, for example, some of the strongest supporters of tax revision, such as Sen. John Chafee (R., R.I.) and Sen. George Mitchell (D., Maine), vehemently oppose an import fee. "It is reprehensible," Sen. Mitchell says. "It really represents a tax on the middle and lower-income levels to benefit those on the very top of the income scale."

There are other problems. An oil-import fee would offset some of the inflation-suppressing effect of falling oil prices and, perhaps, hinder economic growth as a result. The tax would hurt some U.S. allies, such as Mexico, Canada and Venezuela, which are major exporters of oil to the U.S. Even a staunch advocate like Sen. Lloyd Bentsen (D., Texas) says that the oil-import fee is an inconsistent source of revenue because, in its most likely version, its yield would fluctuate with the price of oil.

The oil industry itself is split. Most major oil companies dislike an import fee because they import much of their product. The petrochemical industry has the same objection. On the other hand, many, but not all, domestic drillers are clamoring for

such a fee. A major association of drillers, the Independent Petroleum Association of America, opposes any sort of energy tax, partly because it fears that any energy-tax debate might open the door for a new tax on "windfall" profits.

The gasoline tax would cause the same regional bickering as the oil-import fee, but in reverse. Northeastern lawmakers, such as Sen. Lowell Weicker (R., Conn.), call the gasoline tax "more equitable" than the oil-import fee. But it is disdained in the Southwest and the West, where drivers must routinely cover long distances.

The gasoline tax also is highly visible, which is a liability, particularly when President Reagan has heightened taxpayers' resistance to tax increases. And to produce significant revenue, this tax would have to be raised substantially from its current nine-cent-a-gallon level.

To reduce the regressivity of energy taxes, some liberals want a rebate or an income-tax deduction to ease the impact on middle-income and lower-income families. Others would impose the broadest type of tax on energy to spread its impact among many groups. One version of this tax, the BTU—or British Thermal Unit—tax, would tax all energy products across the board. "Smaller is beautiful, and broader is better," says Rep. Philip Sharp (D., Ind.).

Some combination of taxes on domestic and imported oil also is being viewed as a possible compromise. But not for everyone. Sen. Chafee doesn't want any new revenue source as part of the tax-revision bill. Instead, he wants to pressure tax writers to produce "true tax reform," which pays for lower tax rates by curtailing tax preferences, and eschews new taxes.

BUSINESS

Economists See Faults in Oil Import Fee

By John M. Berry and Anne Swanson
Washington Post Staff Writers

Imposition of an oil import fee—which is actively under consideration by some Reagan administration officials and members of the Senate Finance Committee—would reverse some or all of the economic growth and lower inflation and interest rates generated by the current decline in oil prices, many economists say.

These economists, who range from conservative to liberal, question whether it would be worth paying that price to boost federal revenue—particularly if the purpose of the fee is to replace the revenue lost from lowering personal income tax rates by a greater amount and increasing corporate taxes by a smaller amount than proposed in the House-passed tax revision bill pending before the committee.

Moreover, such a fee does not seem to be

the first choice of many economists because it would raise business costs and make American products less competitive on world markets.

Many economists also see falling oil prices as a special boon this year when the inflationary impact of the declining value of the U.S. dollar on foreign exchange markets is expected to be felt. Some analysts fear that the Federal Reserve Board could decide to tighten credit conditions and slow economic growth if inflation begins to accelerate. The oil price decline is seen as reducing that possibility.

Perhaps surprisingly, most segments of the oil industry oppose such a fee. Not only are major companies such as Exxon Corp., Mobil Corp. and Chevron Corp. against it, but so is the Independent Petroleum Association of America, whose members are small drilling and producing companies. "... Taxes, tariffs, fees or quotas on im-

ported crude oil or petroleum products would be counterproductive to the national interest at this time," a recent IPAA policy statement said.

A \$5-a-barrel fee, the most commonly mentioned figure, would be equal to about 12 cents a gallon and raise about \$8 billion a year if imports of crude oil and refined products remained at last year's levels.

Imports account for less than 30 percent of U.S. petroleum use. If their cost were raised by a fee, the price of domestically produced crude oil and natural gas liquids also would go up, and the U.S. oil industry's revenue would increase by about \$20 billion.

A portion of that increase would be taxed away through the federal crude oil windfall profits tax as the price of oil rose, and through the corporate and personal income taxes as well. How much additional federal revenue those taxes might yield would depend on a number of things, including how

higher oil prices affected the overall economy, economists say.

There also could be some increase in natural gas and coal prices—or at least less of a decline than otherwise would occur—if oil prices are propped up by an import fee.

Altogether, the direct increase in the cost of petroleum products, if passed through entirely to users, would approach \$30 billion and be equal to about 0.7 percent of this year's gross national product, which is expected to be about \$4.2 trillion.

It probably would take about two years for the higher prices to work their way through the economy, according to economists who have studied the situation.

At the moment, oil prices are falling while the import fee is still only a proposal, albeit apparently a serious possibility, according to Senate Finance Committee Chairman Bob Packwood (R-Ore.). That timing difference led economist Alan

Greenapan of Townsend-Greenapan & Co. to caution the committee last week. "There is somehow an assumption it is politically easy" to impose a fee, Greenapan said. "There is almost never a way to time such tax so that prices don't fall and then rise again when it is put on."

Greenapan's point was that whatever restraining influence falling oil prices may have on various price indexes will have occurred already by the time an import fee could be imposed. Then, when the higher oil prices begin to show up in the indexes, the additional inflation will be highly visible, he predicted.

The Finance Committee is considering the fee for several reasons, including providing some price support for the sagging domestic oil industry and for bankers who have risky loans to it. But the principal concern is to find added revenue to offset other

See OIL TAX, F8, Col. 1

Oil Import Fee Questioned

OIL TAX, From F1

tax cuts that President Reagan and members of the committee want to make as part of the massive tax revision bill passed late last year by the House of Representatives.

Several committee members are backing legislation to enact a fee. Sen. Malcolm Wallop (R-Wyo.) wants a sliding fee to capture any decline in crude prices below \$22 a barrel. Sen. David L. Boren (D-Okla.) is pushing a \$5-a-barrel fee that would begin to phase out if the price rose above \$25 a barrel and would disappear after the price reached \$30 a barrel.

Both proposals include a higher fee on imported refined products to provide additional protection for U.S. refiners. Wallop would add \$3 a barrel; Boren, \$10 a barrel. Sen. Lloyd Bentsen (D-Tex.) is a cosponsor of both bills. Senate Majority Leader Robert J. Dole (R-Kan.) also favors an import fee, as does ranking committee Democrat Russell B. Long (D-La.).

All the sponsors are from oil-producing states. Committee members from other parts of the country generally oppose the idea. For example, Sen. George Mitchell (D-Maine) said, "It's an incredible windfall for the domestic oil producers. I don't see what benefit there is to the nation in that. And it would be extremely inflationary."

This split mirrors the different economic impact a fee would have in various regions. Areas such as New England that are heavy users of oil products would pay higher prices but get little of the benefits flowing to the domestic oil industry. Oil-producing areas in the Southwest also are heavy oil consumers, but they would share in the gains of the domestic producers.

Greenspan, a former chairman of the Council of Economic Advisers, noted that a fee on oil imports would raise the cost of chemical products made from oil, of which the United States is a substantial exporter. Higher oil prices could have a significant impact on many lower-cost products, he said.

Nevertheless, Greenspan believes that the fee ought to be looked at as a possible revenue source. "It is the least worst of the available political decisions," he declared. "Whether it's desirable is another question."

Another former CEA chairman, Murray L. Weidenbaum of Washington University, who also testified before the Finance Committee last week, said he would not impose an oil import fee because it would worsen the U.S. competitive position.

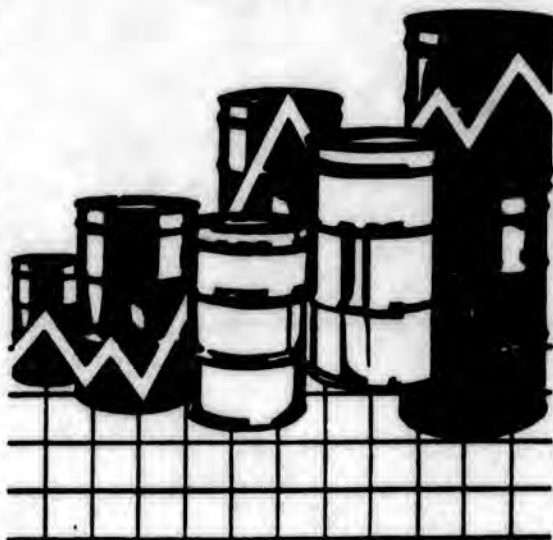
John Makin, a tax economist at the American Enterprise Institute, opposes the proposal. "I really think the energy tax is just a habit of thought," he said. "There was a lot of talk about it in the late 1970s. People have reports and studies, and they dust them off. I don't think that's a good way to go."

Charles L. Schultze of the Brookings Institution, Weidenbaum's predecessor at the CEA, flatly opposes an oil import fee. Falling oil prices "will take some or all of the sting out of the falling dollar," he said. Putting on a fee "would undo some of the good things" that lower prices will produce.

A \$5-a-barrel fee would generate about \$10 billion in additional revenue, Schultze estimated. "If that was the last \$10 billion needed for a decent budget package (to reduce the deficit), I'd hold my nose and buy it, but I would not advocate it," he said.

However, the Senate Finance Committee is looking at a fee primarily as a way of making Reagan-backed changes such as reducing the top personal income tax rate from a proposed 38 percent to 35 percent—it is now 50 percent—and increasing the current \$1,080 personal exemption to \$2,000 for all but the highest-income taxpayers.

Other changes Reagan is seeking include a corporate income tax rate of 33 percent instead of the 36 percent in the House bill. The president and some committee



members also want to reduce depreciation allowances on business investments in new plants and equipment significantly less than did the House.

Harvard University economist Martin Feldstein, another former CEA chairman, strongly advocates reducing investment incentives by less than what the House has proposed. In order to do that, while still keeping the tax revision measure from generally neither raising more or less revenue than current law, Feldstein would use the fee. "It's a good tradeoff," he said, adding, "It would be better still to have a combination of an oil import fee and a gasoline tax, with heavier weight on the gasoline tax." Feldstein is much less enthusiastic about using part of the revenue from an import fee to offset revenue lost by reducing the top marginal rate for individuals from 38 percent to 35 percent.

Most of the discussion in recent months about an oil import fee has been in the context of raising revenue to reduce the large continuing federal budget deficits. It was in that vein that President Reagan included a \$5-a-barrel fee on both imported and domestic oil in a contingency tax package he proposed in early 1983. That package—which he later let be known he did not want to have passed—would have gone into effect only if several conditions were met, including prior enactment of major spending cuts.

Recent public statements by some of the major oil companies, including a Mobil Corp. advertisement in today's Washington Post, generally oppose the fee as a way of cutting deficits. Mobil calls the fee "a dud" because of its inflationary and competitive consequences for the American economy.

An Exxon Corp. statement declares, "These additional fees, which are in effect taxes, would increase consumer prices, increase inflation and reduce real gross national product. In addition, they would distort competition among fuels, place energy-intensive U.S. manufacturing industries at a competitive disadvantage against foreign competition and fall inequitably on different regions of the country . . ."

"If it is determined that tax increases are necessary, however, they should be as broad-based as possible."

Former Treasury tax economist Harvey Galper has been invited by the Finance Committee to testify this week on the impact of taxes on international competition and capital formation. Galper said he plans to tell the committee that the most solid way to improve America's competitive position and to increase capital formation is not by providing larger investment incentives through the tax code—especially if the price is imposition of an oil import fee—but rather to increase national saving. And he said that the best way to increase the amount of savings available for investment is to reduce federal budget deficits.

Oil Levies Were a Bad Idea, Anyway

By CHARLES W. KADLEC
And ARTHUR B. LAFFER

The combination of weakening oil prices and Congress's failure to restrain its profligacy has quickened the pulses of those who wish to protect U.S. oil producers from "cheap" foreign competition and those who want to buy their way out of the budget impasse at the expense of the American taxpayer.

An oil-import fee offers an obvious way to please both groups under the guise of fiscal responsibility. A tax on imported crude and refined products that matches a world oil-price decline, for example, would leave oil and refined-product prices in the U.S. unchanged. Thus, it is argued, such a tax will have little effect on U.S. economic activity. It merely represents a transfer of funds from foreign oil producers to the U.S. Treasury. Moreover, it would provide some price relief to struggling U.S. refineries and encourage the production of U.S. oil. Finally, at the current level of imports, a \$5-a-barrel tax on foreign crude and a separate tax of \$10 per barrel-equivalent on refined products would raise more than \$11.5 billion a year.

A Specious Argument

This analysis, seductive as it might have seemed in Washington until President Reagan tossed cold water on the idea yesterday, ignores the fact the U.S. economy competes with the rest of the world, which will be enjoying the benefits of lower oil prices. It is therefore specious to argue that foreign suppliers of petroleum products would bear the full burden of the import fees. The same failure to recognize full U.S. integration with world markets led most experts to forecast significantly higher gasoline and heating-oil prices here when domestic oil prices were decontrolled in 1981. Indeed, in some respects, the imposition of crude-oil import fees alone would have the opposite effects of the wellhead price controls that were repealed.

U.S. refineries compete directly with foreign counterparts in pricing products to distributors of gasoline, heating oil and diesel fuel. This competition assures that U.S. wholesale prices are equilibrated with world prices, without direct reference to U.S. crude-oil prices. If domestic refineries

were to raise their prices above world prices, they would quickly lose their customers to refineries operated in the Caribbean, Canada and Europe.

Evidence is plentiful supporting this view of a global refined-product market operating virtually independently from the domestic crude-oil markets. During the entire period of price controls, heating oil prices in New York and Rotterdam (the major refining center in northwestern Europe) were within the per-gallon shipping cost of three cents to 6.5 cents between the two markets. Virtually identical observations were made by Rand Corp. economists

unchanged the world price of refined products. As a result, domestic refineries would be able to pass on little if any of the now higher cost of crude oil to their customers. In general, refinery margins would be narrowed by the amount of the tax.

The impact of a tax on foreign crude oil would be to increase revenues to the U.S. Treasury and the profitability of domestic oil producers at the expense of reduced profitability of domestic refineries, both absolutely and relative to foreign-based refineries. In the aftermath of such a tax, imports of refined products would be expected to rise while imports of crude oil

uct markets. Domestically based production facilities that face foreign competition will find it difficult if not impossible to pass on higher energy prices to their customers. Such an overall energy tax would thus hurt those industries the most that are most intensive in the use of energy and that also face foreign competition. The domestic steel, aluminum and petrochemical industries are just three examples that immediately come to mind. To the extent that recently negotiated steel-import quotas protect that industry, then those industries intensive in the use of steel, including autos, also would be affected.

To put it differently, to the extent possible, the American consumer will try to obtain the cheaper foreign oil in whatever form possible. If the imports of crude oil at the world price are blocked, then foreign crude oil will be displaced by imports of refined products. If in a similar fashion the price of imported refined products are elevated above the world level, then energy in "fabricated form"—whether it be foreign-sourced steel, automobiles, plastics or fertilizer—will be sought.

Additional Revenue Isn't Warranted

The least damaging of the above taxes would be a fee solely on foreign oil, though it could sound a death knell for many domestic refiners, who would bear the burden of this tax. Broadening the tax to include imports of refined products would increase profits in the domestic oil industry, but impose yet another competitive disadvantage on American industry. Slower economic growth and intensified pressure for more trade restrictions would be the inevitable result. The cost of such an expanded fee is likely to exceed by far any perceived short-run benefits.

Additional revenue is not warranted. If the members of Congress are serious about balancing the budget, they will cheer the stimulative effects of lower oil prices on the American economy and get back to work on reducing the deficit solely through spending cuts.

Messrs. Kadlec and Laffer are Los Angeles-area economic consultants.

They would most hurt those industries that use energy most intensively and that also face foreign competition. Domestic steel, aluminum and petrochemicals come to mind.

Charles E. Phelps and Rodney T. Smith in their 1977 study of pricing regulations on domestic energy markets.

Moreover, the spot prices in the two markets were left essentially unchanged by decontrol. On Jan. 12, 1981, a gallon of heating oil sold for 97 cents in Rotterdam and \$1.02 in New York. Oil prices were decontrolled on Jan. 28, and on Feb. 2, a gallon of heating oil again sold for 97 cents in Rotterdam and \$1.02 in New York.

More to the case at hand is the impact on domestic prices of the lifting of a \$2-a-barrel import fee on crude oil in January 1976. The effect was washed out in integrated world markets, and heating-oil and gasoline prices were largely unaffected.

The integration of U.S. and world refined-product markets makes the point at which any oil tax is levied as important as the tax itself in determining the effect of the tax on the economy.

If the tax were levied solely on foreign crude oil, then the burden of the tax would be borne by domestic refineries. A \$5 import fee would allow domestic oil producers to raise their prices an equivalent amount. However, the import fee leaves

and utilization of domestic-refinery capacity would be expected to decline. This result is just the reverse of what happened when the oil-import fee was lifted in 1976. As then, wholesale prices of refined products would be left virtually unchanged.

If, as proposed, a \$10-a-barrel tax were levied on imported refined products, domestic refined-product prices would be elevated above the world level by \$10 a barrel compared with just \$5 a barrel for crude oil. In such a case, distributors of refined products would have no choice but to pay a price equal to the world price plus the tax for their supplies. This approach would widen profit margins for U.S.-located refineries and shift the mix of imports toward crude oil and away from refined products. Before-tax profit margins within the domestic oil industry would rise by the amount of the tax.

But since many users of refined products compete directly or indirectly with foreign suppliers of goods and services, profit margins throughout the rest of the economy would be squeezed. The process of arbitrage does not stop at refined-pro-



WATCHING WASHINGTON

with Patrick Crow

New import fee approach

Fresh ideas are a scarcity on Capitol Hill.

Most bills have an aura of *deja vu* because some congressmen introduced a similar bill in the past—or even the current—session.

Among the most frequently filed energy bills are ones calling for an oil import fee, which the industry generally opposes.

The American Petroleum Institute and Independent Petroleum Association of America have come out against an import fee on crude and products. Small refiners, however, have been pressing for protection from imported products.

Last summer, senators considered tacking a \$5/bbl oil import fee onto a budget bill until the antitax Reagan administration threatened to veto it (OGJ, Aug. 5, 1985, p. 40).

The Senate voted on a \$10/bbl crude and products import fee last November, rejecting it 78-18.

Sen. Gary Hart (D-Colo.) offered the proposal as an amendment to a budget bill, saying it would protect the nation when world oil prices rise again, help reduce the federal deficit, and spur U.S. exploration.

Critics responded that the amendment had less to do with eliminating the federal deficit than it did propping up the oil and gas industry.

And propping up the industry is the unvarnished goal of a bill Sens. Malcolm Wallop (R-Wyo.) and Lloyd Bentsen (D-Tex.) filed last month.

Adding a new wrinkle to an old issue, they proposed an "imported energy excise tax" which would set a \$22/bbl "minimum survival value" that a barrel of crude or equivalent products should bring on the domestic market.

If the price of imported oil or products fell below \$22, the tax would make up the difference, ensuring a \$22/bbl floor for U.S. oil production.

Unlike some other oil import tariff bills, the Wallop-Bentsen measure will at least get an airing. Wallop, chairman of the Senate finance committee's energy and agriculture taxation subpanel, plans hearings soon.

Wallop said passage of the bill would protect domestic producers and refiners from large fluctuations in price and supply. The fee would not apply to home heating oil and feedstocks used to make exported goods.

Bentsen said if world crude prices continue to decline, they will trigger an increase in U.S. demand, thus shoring up prices again.

He said, "Under this bill, that won't happen. When world oil prices fall below \$22, that decline will not be felt in this country.

"That could mean world prices could continue to decline instead of being firmed up by an increase in demand, and that could spell further trouble for the Organization of Petroleum Exporting Countries."

With the administration opposed to new taxes and Congress favoring low energy prices, prospects for the Wallop-Bentsen bill appear slim.

But it does have a chance. It would raise several billion dollars at a time Congress will be scrambling for ways to reduce the federal budget deficit under mandates of the Gramm-Rudman Act.



with Patrick Crow

WATCHING WASHINGTON

Import fee still alive

Momentum continues to build for passage of an oil import fee as Congress comes to grips with the budget deficit.

Although a fee could raise billions of dollars a year, legislators have been reluctant to increase their constituents' energy costs.

Falling oil prices have removed that problem. Consumers would not feel the bite of the tax.

It's difficult to gauge support for an import fee in the populist House of Representatives. But support clearly is building in the Senate, which twice rejected a fee in the last 6 months (OGJ, Jan. 13, p. 31).

True, President Reagan continues to oppose in principle any new tax—and an oil import fee is undisguisably that. Sen. Robert Packwood (R-Ore.), finance committee chairman, recently discussed new taxes with Reagan and later related, "On a scale of one to 10, he was minus five."

But senators discount that because Reagan's top advisers privately are telling them a 10¢/gal gasoline tax or a \$4/bbl oil import fee could generate \$50 billion during 5 years. Senators also recall that 4 years ago the administration proposed a \$5/bbl fee to resolve a budget problem.

There are two possible avenues for a fee: in budget or in tax reform legislation. Both seem open.

Pete Domenici (R-N.M.), Senate budget committee chairman, supports a fee. Committee member Ernest Hollings (D-S.C.) flatly predicts Congress will vote a fee in the 1987 budget.

On the Senate finance committee, which is working on the tax reform bill, David Boren (D-Okla.), Malcolm Wallop (R-Wyo.), and Lloyd Bentsen (D-Tex.) are pressing for a fee. They reason that a fee would shore up U.S. oil prices and the suffering oil industry in their home states.

Wallop chairs an energy taxation subcommittee that will conduct hearings Feb. 27-28 on an import fee.

Even senators not on the finance or budget committees sense the momentum. Don Nickles (R-Okla.) recently told Reagan that for the sake of fairness an import fee should be levied equal to the "windfall profits" tax oilmen pay.

Nickles said, "My guess is that you probably will see an oil import fee some time this year."

James McClure, energy committee chairman, opposes a fee. "I don't know of any way you can levy one without creating competitive distortions in the energy market," he says.

But he concedes, "There will be a great deal of pressure and the possibility of some movement in that direction."

A recent finance committee decision may make it easier for oil state senators to try to substitute an import fee for higher oil industry taxes in the tax reform bill.

Rather than work from the House-passed bill or Reagan's proposal, the committee asked Packwood to draft a "starting point" bill for it to use when markups begin.

That puts tax reform on an even slower track. A bill won't go to the Senate floor before June, and any ensuing House-Senate conference committee will take much more time.

Energy Experts Say Reagan's Tax Plan Favors Oil and Gas Over Other Sources

4/19/85

By ROBERT E. TAYLOR

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — President Reagan's tax proposal would give a competitive advantage to oil and gas over competing energy sources.

The president's plan would preserve a major tax subsidy for oil and gas drilling while eliminating tax incentives to develop plentiful coal and renewable energy sources, including wind and solar power. In effect, the proposal would set a national energy policy of relying more heavily on America's dwindling oil and gas reserves, draining them faster.

The administration says it decided to retain some controversial oil and gas tax incentives largely because dropping them would "increase U.S. dependence on foreign energy, exacerbate the problem of the trade deficit, and again make the U.S. vulnerable" to an oil embargo.

But some energy experts, as well as Mr. Reagan's own Treasury Department, say that oil and gas tax breaks eventually could undermine the president's goal of reducing reliance on fuel imports.

The oil and gas tax breaks are likely to be the focus of hearings today as the House Ways and Means Committee looks into the energy aspects of the president's tax proposal.

Reducing U.S. Vulnerability

The Treasury said last November that eliminating oil and gas tax subsidies would "reduce vulnerability to foreign supply disruptions" in the long-run by encouraging conservation and slower depletion of U.S. reserves. In addition, many economists say the oil and gas tax breaks would attract investment away from other enterprises, including competing energy industries such as coal and wind power. Short-term strength in oil production, they say, will be offset by weaker development of these other energy sources.

Some experts say the U.S. should shepherd its remaining petroleum reserves and develop lasting alternatives. "We probably shouldn't continue to rely so totally on oil and gas," says Michael Blum, a Merrill Lynch & Co. investment banker who formerly directed the Energy Department's research and development projects.

If the goal is to reduce energy imports, adds Robert Stobaugh, an editor of the book "Energy Future" and a Harvard Business School professor, "you could make as big a case for tax incentives for solar, coal and conservation as you do for oil."

The oil tax breaks have their defenders. Mr. Stobaugh says any slowing of U.S. oil production would be hard to reverse if the need arose. "Once the industry falls below a certain level of activity," he says, "it takes a long time to get it started up again."

Little Incentive in Reagan Plan

Independent oil producers, in fact, insist that the Reagan plan provides too little tax incentive to sustain current production. While major oil companies can generate funds internally, independents rely on the tax breaks "to produce money to drill

other wells," argues Michel Halbouty, a Houston oilman and a Reagan administration energy adviser.

Mr. Stobaugh argues that write-offs of drilling costs can be justified as research and development expenses. Also, he says, coal and other energy sources are imperfect substitutes for oil and gas.

The administration has been ambivalent about energy self-reliance. It wants to lower fuel-efficiency requirements for cars and stop stockpiling oil in the U.S. strategic reserve during the current ghat. Still, the administration argues that the nation needs to extend some oil industry tax incentives to encourage risky drilling ventures. Otherwise, it says, oil and gas production would drop by the energy equivalent of one million barrels a day. The White House argues that this is a national security issue and, thus, an exception to its view that the tax code shouldn't promote economic or social goals.

Environmental Action, a group often critical of the administration, calculates that the Reagan plan would preserve annual oil and gas industry tax breaks of \$8 billion to \$12 billion—about \$4 billion less than current levels. In contrast, the group figures that the plan would eliminate all \$1 billion in breaks for renewable energy and conservation and three-quarters of about \$42 billion in tax incentives for coal.

Under the president's proposal, the oil industry would lose most percentage depletion, which allows write-offs of 15% of the value of oil produced. But percentage depletion already had been scaled back by Congress.

'Intangible' Write-Offs

More important, the president would let oil and gas drillers continue to write off in one year, instead of for the life of the well, all of their "intangible," or, non-equipment, drilling expenses.

Last year, Treasury concluded that the intangible-drilling cost write-off undermines tax equity, diverts investment from more productive activities, promotes "excessive reliance upon drilling" compared with other exploration techniques, and mostly benefits the rich.

Yet, the industry's political and economic clout played a role in reversing Treasury's view within the White House, administration aides concede. Democrats also are likely to find it difficult to resist the industry's political strength. Many large coal companies, moreover, are owned by oil giants. Rather than criticize the oil tax breaks, they seek comparable incentives.

The major loss for coal companies stems from the proposal's five-year phase-out of their 10% depletion allowance for coal mined. Carl Bagge, president of the National Coal Association, calls this allowance coal's "equivalent to oil and gas's intangible drilling costs."

Merrill Lynch's Mr. Blum contends that the proposed tax changes could trigger a "depression" in the Appalachian states.

The loss of tax breaks, Mr. Blum says, also would slow the research and development of renewable energy sources, including solar, wind and alcohol fuels.

Oil Import Fee Faces Trouble in Congress

Despite signals from President Reagan that he could accept an oil import fee as part of an overhaul of the federal tax system, the proposal appears to have only a slim chance of enactment.

Members of the Senate Finance Committee, in the preliminary stages of drafting a tax-revision bill, are unlikely to include the fee as part of their plan because of a host of regional and economic problems, according to aides.

Three economists told the panel Feb. 6 that the fee would raise relatively little revenue, would erase some of the economic benefits of declining oil prices and would be an inefficient way to help domestic oil and related industries.

"I think they just nailed the coffin shut," remarked John Heinz, R-Pa., when the witnesses concluded. Heinz and five other committee members from the energy-consuming Northeast have said they are fiercely opposed to the fee.

In addition, senators who generally favor an import levy are split over whether it should be used to reduce the deficit or as part of a "revenue-neutral" rewrite of federal tax law.

As the tax comes under more scrutiny, others are questioning its impact on trade and the overall prospects for economic growth.

Still, budgetary pressures could emerge later this year that might force consideration of a revenue-raising import fee as Congress struggles to meet the demands of the deficit. (*Budget pressures*, p. 299)

Committee aides note that the fee has a formidable array of backers, led by Finance Chairman Bob Packwood, R-Ore., and ranking committee Democrat Russell B. Long of Louisiana. It also has been promoted by Senate Majority Leader Robert Dole, R-Kan., and Senate Budget Committee Chairman Pete V. Domenici, R-N.M., for use in a deficit-reduction bill.

Packwood, however, has said his committee will not consider any tax increase to lower the deficit unless

Disadvantages Said To Outweigh Gains

Reagan takes the lead — something the president reaffirmed in a Feb. 11 press conference that he would not do. (*News conference text*, p. 317)

"It [the fee] might come out of committee," said Finance Committee Chief of Staff Bill Diefenderfer. "But it would be after a terrible struggle."

Tax Bill's Problems

The difficulty of enacting an import fee illustrates the Finance Committee's predicament as it tries to reshape the House-passed tax bill (HR 3839) to restore a number of tax

breaks and make other changes favored by members and the administration. (*House bill, 1985 Weekly Report* p. 2705)

The committee is tentatively scheduled to begin marking up a bill by the middle of March.

Besides a number of business-related tax advantages that members would like restored, Reagan has called for a lower top tax rate and a higher personal exemption than were included in the House bill. (*Weekly Report* p. 142)

Packwood has said the panel might need as much as \$130 billion over the next five years to produce a measure that raises the same amount of revenue as the existing tax system, a standard the committee has tentatively agreed to meet.

But Senate tax aides, who have been meeting almost daily as the committee staff tries to incorporate members' concerns into a draft plan, say that few areas of agreement on how to pay for the changes have emerged.

"We're just going through each provision of the [House] bill and seeing where the land mines are," said one Democratic aide, adding that they appeared to be "everywhere."

The Treasury Department has sent the committee a 26-page list of possible revenue-raising options, but almost every one is rife with controversy. They include a broad-based consumption tax, which Reagan has said he opposes, and limits on deductions for state and local tax payments. The list also includes an oil import fee, a gasoline tax and an across-the-board energy tax.

The Treasury document estimates that it will cost as much as \$125 billion over five years just to make changes favored by Reagan, not to mention changes committee members would like to see.

Door Open on Oil Fee?

The import fee was given a boost during the week of Feb. 3, when Reagan and several administration officials said the president was willing to look at the levy as part of the tax-overhaul bill. This was in contrast to



Some members of Congress are pushing an oil import fee in hopes it will help bolster the domestic oil industry.

—By Pamela Fessler

Oil Import Fee Revenues

Following are the Treasury Department's estimated revenues from imposition of an oil import fee starting Jan. 1, 1986:

Fee	Revenue in Billions of Dollars					Total, 1986-90
	1986	1987	1988	1989	1990	
\$4 a barrel	\$ 6.2	\$ 8.4	\$ 8.7	\$ 9.2	\$ 9.9	\$ 42.4
\$8 a barrel	13.0	16.8	16.3	17.0	18.3	81.4
\$4 a barrel with an additional tax on domestic "windfall" profits	7.5	10.1	10.4	11.0	11.7	50.7
\$8 a barrel with an additional tax on domestic "windfall" profits	14.8	19.6	19.6	20.4	21.8	96.2

previous statements by Reagan that he would not consider any new taxes for either the tax rewrite or to help reduce the federal deficit. (*Weekly Report* pp. 143, 259)

But with world oil prices dropping at a rapid pace, the oil fee has attracted considerable interest on Capitol Hill as members search for a way out of their fiscal dilemmas.

In fact, Packwood made little secret of the fact that he wanted to use the fee as part of his tax-overhaul bill before Budget Committee Chairman Domenici could lay claim to it to help reduce the federal deficit.

The fee has been promoted mainly by oil-state members who hope it would bolster the domestic oil industry, which has been stunned in recent weeks by a dramatic plunge in world prices to below \$20 a barrel.

They argue that an excise tax on imports would provide much-needed protection for domestic producers against the world price decline and prevent a resurgence of U.S. dependence on foreign energy sources. Presumably, the price of domestic oil would be set at a level at or near the level of oil imports, after the fee has been attached.

Among the two proposals that have received the most attention in the Senate are bills introduced last year by Finance Committee members David L. Boren, D-Okla. (S 1507), and Malcolm Wallop, R-Wyo. (S 1997). Both measures are cosponsored by Lloyd Bentsen, D-Texas, who is also a committee member.

Boren's bill would impose a \$5-a-

barrel import fee on crude oil and a \$10 fee on refined products, to provide additional protection for domestic refiners. Wallop's measure calls for whatever import fee would be necessary to keep the price of crude oil from falling below \$22 per barrel. Both measures will be the subject of hearings by Wallop's Subcommittee on Energy and Agricultural Taxation on Feb. 27-28.

Boren and Wallop argue that the fee is needed not only to help cushion producers against the impact of the world price drop, but to protect businesses closely tied to the oil industry. In Oklahoma, for example, banks with extensive outstanding loans to producers are already feeling the pinch as the value of collateral put up by borrowers has eroded with the drop in prices. A wave of small- and mid-sized bank collapses in the state this year is feared.

"If the price drops to \$15 or \$12 a barrel, it will cause chaos," said Boren. "And it won't stop in Houston or Dallas, but will extend all the way to New York."

In addition, local economies and state government coffers are expected to be hurt. Texas State Comptroller Bob Bullock announced Feb. 13 that his state expected about \$1.3 billion less in revenue for its fiscal 1986-87 budget as a result of the oil price decline.

Eroding Support

But promoters of the fee realize they face an uphill battle, as new questions arise about the promised

revenue and other benefits of a fee.

"There are so many problems with an import fee," acknowledged a Wallop aide, "that it's difficult to see how it will get off the Hill in a form that will have the support of the original sponsors."

In order to attract broad congressional backing, Boren and others have stressed that the fee would be an easy way to raise much-needed revenue for the federal government at a time when consumer prices are likely to ease.

The Treasury Department has estimated that a \$4-per-barrel fee would raise about \$42.4 billion over the next five years and that an \$8 fee would raise about twice that amount. (*Revenue estimates, box, this page*)

But the budgetary impact of a fee is not that simple. In promoting the administration's budget the week of Feb. 3, Beryl W. Sprinkel, chairman of the president's Council of Economic Advisers (CEA), listed a number of economic advantages from the drop in oil prices that could be wiped out by a new tax on imports.

A \$10 drop in the price of oil could be expected to translate into a 1 percentage point increase in the rate of economic growth, he said, adding that declining prices would also lead to lower inflation.

Such economic results, he noted, translate into budget savings. For example, the administration estimated in its budget that each percentage point increase in the growth rate would mean a \$78 billion reduction in the deficit over the next five years.

The question that some on Capitol Hill and in the administration are asking is whether the revenues raised by the fee are worth the negative impact the fee could have on the overall economy and the political struggle the proposal is likely to entail.

A 1985 study by the Congressional Research Service (CRS), done in conjunction with the econometric forecasting firm of Data Resources Inc., showed that under certain circumstances a \$5-a-barrel oil fee could actually increase the deficit in the initial years.

"It's clear that with the oil import fee, what you see is not what you get," said CRS economist Lawrence Kumins.

Regional Rifts

A potentially more difficult problem for promoters of the oil import fee is the opposition it arouses from members from the Northeast and some

parts of the Midwest, who say their constituents would bear the brunt of higher oil prices.

They argue that while a \$4 or \$5 import fee might raise \$8 billion a year for the federal government, consumers would pay as much as \$30 billion a year more for energy as domestic producers jack up their prices.

"Why tax home heating oil in places that get the 30 or 40 below zero weather in order to finance ... this long list of corporations?" asked Finance Committee member Dave Durenberger, R-Minn. Durenberger said he told Packwood he was "96 percent" against the import fee.

Outside the committee, regional objections also are strong.

Claiborne Pell, D-R.I., along with 13 other senators, introduced a "sense of the Senate" resolution (S Res 335) Feb. 6 opposing a fee.

"The truth is that it is not a good idea and it would not be painless," said Pell. "An oil import fee would impose heavy new costs on all who use oil and oil products in manufacturing and production. It would impose higher costs on all those who heat their homes with oil or use oil-generated electricity."

In the House, the fee might face its strongest Northeastern opponent. Speaker Thomas P. O'Neill Jr., D-Mass., has said he is "absolutely opposed to it.... No way would I support an oil import fee."

Boren and other proponents have said they could accommodate such regional concerns by exempting home heating oil from the fee. But opponents argue that such exemptions will only make the fee complex to administer and put pressure on legislators to exempt others, such as farmers and manufacturers, who might be hurt by the fee.

To accommodate some of the regional disparities, former CEA Chairman Martin S. Feldstein has suggested that Congress impose a gasoline tax along with an import fee. The burden of higher gas taxes, he notes, would be greater in the South and West, where consumers drive longer distances than in the Northeast.

But there are divisions even within the oil industry and within oil-producing states over whether an import fee is a good idea.

The American Petroleum Institute and the Independent Petroleum Association of America, two of the industry's largest trade groups in Washington, have come out against the fee,

at odds with many oil producers.

The associations argue that Congress is unlikely to allow domestic producers to reap large financial benefits from an import fee without imposing a new domestic oil tax.

In fact, among the revenue-raising options outlined by the Treasury Department are two that would include an expanded windfall profits tax.

The current windfall profits tax would capture only a small amount of domestic oil income resulting from the fee because the tax is based on profits in excess of per-barrel oil prices that were set several years ago and are now above or at current levels. (*Congress and the Nation* Vol. V, p. 530)

Other energy-related businesses are also wary of an import fee.

Rep. Bill Archer, R-Texas, for example, has complained that the petrochemical industry would be severely burdened by the fee because its energy costs would be much higher than those of its foreign competitors, who could purchase oil outside the United States at a lower price.

Others warn that the already precarious trade position of farmers and manufacturers, who also use large amounts of energy, would be further damaged. "It would raise production costs for every single business in this country — no exceptions," economist Norman Ture told the Finance Committee Feb. 6.

ECONOMIC AFFAIRS NOTES

Rostenkowski Opposes Tax Bill Delay

House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., said Feb. 10 he will not agree to a wholesale delay in effective dates in the tax-overhaul bill (HR 3838) passed by the House late last year.

In a speech to the Bond Club of New York, Rostenkowski said such a change could encourage some tax abuses to continue as well as cost the federal government lost revenues.

Most of the provisions in the House bill, which lowers tax rates and restricts a number of existing tax breaks, would take effect Jan. 1, 1986. But since the Senate is unlikely to act on the measure until later this year, it is assumed many of the effective dates will be revised before the bill becomes law.

Businesses and others have complained that the uncertainty has stymied many activities covered by the tax bill. For example, sales of tax-exempt bonds, which would be severely restricted under HR 3838, have virtually come to a standstill. (*House bill, 1985 Weekly Report* p. 2705)

The House and the Senate have passed non-binding resolutions (H Res 335, S Res 281) backing a change in the effective dates until Jan. 1, 1987. Senate Finance Committee members have asked Chairman Bob Packwood, R-Ore., and ranking Democrat Russell B. Long, La., to meet with Rostenkowski, ranking Ways and Means Republican John J. Duncan, Tenn., and Treasury Secretary James A. Baker III, to draw up a statement outlining their intention to back a Jan. 1, 1987, effective date for the bill. Rostenkowski said he would meet with Packwood, but warned he would agree only to "selective" changes.

PAC Gifts to Tax-Writers Double

According to a new study by Common Cause, the debate over tax revision continues to prove a boon for the campaign coffers of members on the congressional tax-writing committees. The citizens' lobbying group reported Feb. 11 that 1985 political contributions to the 56 members of the House Ways and Means and Senate Finance committees were twice what they had been two years before.

The members received \$6.7 million from political action committees and \$19.8 million in total receipts last year, compared with \$2.7 million and \$9.9 million, respectively, in 1983.

While most committee members deny that contributions influence their votes on tax law, many recognize the financial benefits they have reaped from the tax debate. When the tax bill was on the verge of being blocked from consideration on the House floor last December, one Democrat was overheard suggesting to another that the party prevent a final vote so the bill would remain in limbo for a few more months. "Why kill the goose that laid the golden egg?" he asked. (*Background, 1985 Weekly Report* pp. 1806, 2613)

Falling Oil Prices Spur Inflation Optimism

Forecasts Vary, Tend Toward Low Rate

By LINDLEY H. CLARK JR.

Staff Reporter of THE WALL STREET JOURNAL

In the mid-1970s, economists were trying desperately to predict the impact of sharply rising oil prices. Many of the forecasts, which ranged all the way to international financial disaster, proved to be far too pessimistic.

In the mid-1980s, economists are trying to predict the impact of collapsing oil prices. Their forecasts once again vary widely, but on average they tend to be quite optimistic. Indeed, in the stock market, the optimism has bordered on euphoria, as the Dow Jones Industrial Average has climbed more than 100 points in recent weeks largely on the strength of the oil-price drop.

"Lower oil prices will help restrain inflation and lift U.S. economic growth," says John M. Godfrey, chief economist of Barnett Banks of Florida. "The benefits to consumers and businesses of falling oil prices far outweigh any possible damages to oil producers and energy lenders."

Some of the most ebullient forecasters envision the oil-price decline as carving nearly two percentage points off this year's inflation rate and adding a percentage point or more to the growth in output.

A close look at the forecasts, however, discloses that there's a lot of guesswork involved. The average cost of crude oil used in U.S. refineries has tumbled \$10 a 42-gallon barrel since last November, to about \$20 a barrel. But no one is sure how that drop will be reflected in petroleum-product prices, and how much the prices of natural gas, coal and other competing energy sources will fall as a result. Moreover, it's anybody's guess how much oil prices will continue to drop, if at all.

Indeed, some economists, such as Robert Jones of Money Market Services Inc., Belmont, Calif., and Michael K. Evans, a Washington-based economic consultant, expect oil prices to rise later this year. Mr. Evans says that once the Organization of Petroleum Exporting Countries "and their partners in crime realize that reducing total production by about 3% will generate a \$10-a-barrel increase in prices, they will come to their senses."

To be sure, economists generally feel they have a better handle on the impact of oil-price changes than they did a decade ago. "After all," says Jerry L. Jordan, an economist at First Interstate Bank of Los Angeles, oil prices can't fall forever.

But the general climate of uncertainty has analysts playing a lot of "what if" games.

Burton Zwick, an economist at the brokerage firm of Kidder, Peabody & Co., says that if oil prices average \$20 a barrel

this year and then fall to \$15 by the end of 1987, the consumer price index over three years will fall 5 percentage points more than it otherwise would have. Over the same period, he says, real gross national product—the total value of the nation's output of goods and services, adjusted for inflation, will rise to 1½ percentage points higher than it would have.

What if oil prices average \$15 this year and then fall to \$10 in 1987? "That would be even better," Mr. Zwick says. "Prices would be about seven percentage points lower and real GNP would be 1½ to 2 percentage points higher than otherwise."

Mr. Zwick and other economists emphasize that such estimates are largely guesses. When it comes to assessing price impact, moreover, a continuing effect on the inflation rate requires a continuing decline in prices.

Declining Importance

Another fact is that, dollar for dollar, the price decline can't help the U.S. economy as much as the price rise hurt it in the 1970s. "Energy—particularly oil—is less important to the U.S. economy than only a decade ago," says Richard Berner of the investment firm of Salomon Brothers Inc. "The price hikes of the 1970s spurred energy conservation that kept demand flat while the economy expanded. As a result, oil consumption per dollar of real gross national product plunged by about a third since 1974."

Mr. Berner is less optimistic than Mr. Zwick about the impact on inflation of declining oil prices, at least for this year. Mr. Zwick estimates that \$20-a-barrel oil this year would cut about 1½ percentage points off the consumer price index, while Mr. Berner thinks the cut would be only about ½ percentage point.

Assuming that prices don't go back up to where they were three months ago, Americans in effect have had a significant tax cut. Mr. Berner's arithmetic indicates that a \$10-a-barrel cut in oil prices would lower U.S. energy costs by roughly \$60 billion annually—a sizable tax reduction.

"Will there be a rise in consumption or a rise in savings and investment?" asks Mr. Jordan of First Interstate. "The guy who fills his gas tank finds that he has more money left over. We have no way of knowing what he will do with it."

More Large Cars?

Some auto companies are hoping that some Americans will decide that now is the time to invest in a larger car, since the extra gasoline it will use won't be as much of a burden. General Motors Corp.'s Cadillac division recently has been advertising that it offers the largest production model made in the U.S.

While some effects of cheaper oil are showing up in gasoline and fuel-oil prices, the full effects will take time to work their way through the economy. Cheaper oil, many analysts comment, will help to hold down prices of competing forms of energy, but even that won't have a major effect on overall prices, since all forms of energy account for only 7% of the consumer price index.

Broader effects will show up as cheaper energy reduces costs for many forms of business. Lower costs "will allow businesses to either increase profits or to lower selling prices," says Ray Worsack, manager of economic research for the brokerage firm A.G. Edwards & Sons Inc. in St. Louis.

No one can be sure just what proportion of businesses will take which route, but Mr. Worsack believes many firms will cut prices, so that "the oil-price cuts will be at least partially passed through to consumers."

Lower Inflation Expectations

The drop in oil prices already has had a favorable effect on inflation expectations. Edward Yardeni of Prudential-Bache Securities Inc. is one of the most optimistic. "The collapse in oil prices," he says, "virtually locks in a zero inflation rate for the year."

Most economists are less optimistic, but the lower expectations have helped to bring down interest rates, especially in the

long-term market. If oil prices continue to drop or at least stay at current low levels, lower inflation expectations could affect future business pricing decisions and union wage demands, helping to turn the expectations into reality.

Such hopes, however, would be affected—possibly crushed—if Congress decides to impose an oil-import fee an idea that is under discussion. Such a fee would lift the market price of imported oil and thus would help to support the price of domestically produced oil.

Many Fervent Supporters

Many congressmen and quite a few economists are fervent supporters of the proposal. The tax, they note, would help the domestic oil industry and thus the banks that have lent money to the industry. "An oil-import tax should be met with enthusiasm by economists and politicians as a relatively painless solution to growing budget deficits and a strained financial community," says Michael Englund of Money Market Services.

Actually, however, much of the domestic industry has been less than enthusiastic. Big U.S. oil companies are also heavy importers. Smaller companies fear that Congress might eventually siphon off any gains through some form of windfall tax.

"Imposing any form of general tax on petroleum will only be politically easy if it can be done before declining crude oil prices affect the price of refined products, and this appears to be highly unlikely," an analysis by the consulting firm of Townsend-Greenspan & Co. said late last month.

Official raps oil tax proposal,

WASHINGTON (AP)—Raising taxes on imported oil would cost the average family up to \$365 a year, penalize the poor, hurt key allies and damage the nation's trade balance, the Reagan administration told Congress today.

But the proposal should be kept alive in case it is needed to finance President Reagan's plan for overhauling the income tax system, J. Roger Mentz, acting assistant secretary of the treasury for tax policy, told the Senate Finance sub-

committee on energy taxation.

After describing the oil tax as extremely regressive and estimating that for most families it would wipe out any benefit from the tax revision plan, Mentz said, "The president has not ruled it out. We suggest you keep it on the table."

Sen. Malcolm Wallop, R-Wyo., chairman of the subcommittee, described the administration's position as "sitting on a fence with both ears to the ground."

The tax is being pushed by oil

state lawmakers to help a domestic oil industry being squeezed by plunging prices on the world market. Prices are dropping because Saudi Arabia is trying to whip other members of the Organization of Petroleum Exporting Countries into line, said Sen. Lloyd Bentsen, D-Texas.

"Are our memories so short that we're going to once again put ourselves at the mercy of OPEC?" asked Bentsen, recalling the oil embargo of the early 1970s. "We

ought . . . to be able to look backward far enough and recall the last time we were hooked on foreign oil, then take rational steps to prevent that from happening again."

Sen. David Boren, D-Okla., said a higher tax on imported oil would "place a safety net under the price of domestic oil that would also protect the financial system against the shock of further decreases in the price of oil." He noted that billions of dollars worth of loans to domestic producers are secured by

but says keep it alive

the value of oil reserves—a value that declines with the world price of oil.

"The stability of the banking and financial system in oil-producing regions of the country will be threatened" if the world price continues to plunge and the United States does nothing to react, Boren said.

But Sen. George Mitchell, D-Maine, countered: "If national security, energy independence and bank safety and soundness are

issues that need to be addressed, Congress can, and should, deal with these problems directly—not indirectly through an oil-import fee," said Sen. George Mitchell, D-Maine.

The Treasury Department estimates the oil industry would get \$1.75 benefit for each \$1 that the tax brought to the government.

Treasury's Mentz said an oil tax proposed by Bentsen and Boren would boost the average family's energy expenditures by \$286 a year.

A second plan, by Wallop and Bentsen, would cost the family \$365 a year, he said.

Leonard P. Stewart II, representing distributors who sell oil to 8 million homes and businesses, and Carl Bolch Jr., speaking for the Society of Independent Gasoline Marketers of America, opposed the tax.

James W. Hunt, speaking for Texas Independent Producers and Royalty Owners Association, endorsed an import tax.

BILL SHEFFIELD
GOVERNOR



State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

February 21, 1986

MEMORANDUM

TO: DISTRIBUTION LIST

FROM: *JK* JOHN W. KATZ, Director of State/Federal Relations
and Special Counsel to the Governor

SUBJECT: FEDERAL ISSUES PENDING IN WASHINGTON, D.C.

Oil Import Fee - The international decline in the world price of crude oil has created some Congressional interest in an oil import fee. The fee is being considered in two contexts: first, as a means of adding revenue to the budget to apply to the reduction of the Federal deficit; and second, as a means of generating monies to be included as part of the revenue-neutral tax reform effort being promoted by the Administration.

Two bills will be the subject of hearings before the Senate Finance Committee on February 27 and 28. One bill would essentially establish a \$22 per barrel price for oil, with an elastic import fee in an amount equal to the difference between the world price (if lower) and \$22. The other bill would levy a fixed import fee per barrel for crude oil (\$5 per barrel) and on refined products (\$10 per barrel).

A resolution has been introduced in the Senate expressing opposition to an import fee. At last report, as of February 18, there were 18 Senators who had signed on to cosponsor the resolution. Recently, the Reagan Administration has expressed opposition to an import fee on economic and geo-political grounds. How the Administration will react if confronted with a specific proposal passed by Congress is a matter for speculation.

The Alaska Department of Revenue is analyzing the bills that have been introduced. This analysis will become the premise for any future advocacy necessary to effectuate State objectives.



with Patrick Crow

WATCHING WASHINGTON

Another 'windfall' tax?

Faced with the harsh reality of falling oil prices, some U.S. producers have been ambivalent about or have advocated an oil import fee.

They reason that an oil import fee would prop up domestic prices. A \$5/bbl fee on imported crude, for example, would increase domestic postings by the same amount.

Oil lobbyists, familiar with the track record of Congress, have been less sanguine about that.

Now the Reagan administration has confirmed their fears. Among options it sent the Senate finance committee for additional revenues for the tax simplification bill was an "alternative 'windfall profits' tax."

If Congress enacts an oil import fee and the Reagan proposal, producers would have to calculate their windfall profits tax liability and then their alternative windfall profits tax and pay whichever was higher.

In essence, the government would use the oil import fee not only to raise general revenues but also to revive its sagging windfall profits tax collections.

Treasury told the committee a \$4/bbl oil import fee would raise \$42.4 billion during fiscal 1986-90, an \$8/bbl fee \$81.4 billion, a \$4/bbl fee with a 50% alternative windfall profits tax \$50.7 billion, and an \$8/bbl fee with a 50% alternative tax \$96.2 billion.

Treasury said Congress could increase excise taxes on gasoline and diesel fuel 21¢/gal to glean \$92 billion for the 5 year period or set a 6% tax on the value of all energy products, on a BTU basis, to net \$102.2 billion.

In addition, Treasury noted that the House tax reform bill calls for a 3 year phaseout of the percentage depletion allowance except for independents and royalty owner stripper oil. Including royalty stripper oil in the phaseout would glean \$100 million for the government.

There are many uncertainties about the alternative windfall profits tax proposal at this point. But even with a \$5 oil import fee it could result in windfall profits taxes being reimposed on some Tier 3 crude (newly discovered, heavy oil, and incremental tertiary).

And if the alternative windfall profits tax does not provide a deduction for severance and royalty payments, its bite could be deeper than the 50% proposed.

At this point there is no guarantee that Congress will approve such a tax. But it is likely to be considered if an oil import fee is.

Congress also could consider a different tax to offset producers' gains from an import fee, such as eliminating expensing of intangible drilling costs.

An import fee also would be likely to have numerous exemptions for classes of products users and would entail new regulations and new regulators for the oil industry.

Sen. Robert Dole (R-Kan.) said last week he is undecided about an oil import fee. "I thought it might be a good idea because it would raise domestic prices."

But many Kansas producers have told Dole they oppose an oil import fee even though prices are falling.

"They can live with that better than they can live with a new federal bureaucracy," Dole explained.



WATCHING WASHINGTON

with Patrick Crow

Dealing with the cycle

Plunging crude oil prices dramatize the cyclical nature of the oil business.

Charles DiBona, president of the American Petroleum Institute, says the U.S. government should be considering policies that look beyond that cycle.

He points out that today's market is an outgrowth of the oil price shocks of the 1970s, when rising prices prompted conservation by industrial and residential consumers and spurred exploration/development by producers.

"As a result, world production capacity, which could not keep up with demand in the 1970s, has far exceeded it in the 1980s," DiBona says.

He warns that although declining oil prices will stimulate the economy, if they fall significantly and stay low awhile they will rebound to higher levels more rapidly than they would have otherwise.

With shrinking wellhead revenues, operators have diminished ability to invest in productive capacity. Thus today's U.S. active rig count is only one third of the 1981 peak.

But petroleum demand is increasing. Gasoline use rose more than 1%/year during the past 3 years, and the slump in residual oil use by electric utilities seems to have bottomed out.

API figures that if real oil prices stayed at \$15/bbl during 1986-95, U.S. oil consumption would increase markedly—an average of 1 million b/d/year.

World increases in consumption, combined with price induced decreases in production, very quickly would absorb most of the Organization of Petroleum Exporting Countries' excess capacity, perhaps within 3-4 years, and cause prices to rise precipitously.

DiBona argues that an oil import fee would not protect U.S. consumers from the supply/demand roller coaster.

For one thing, higher oil prices would place exports of U.S. manufacturers at a disadvantage. For another, Congress would riddle an oil import fee with a "myriad of exceptions" for home heating oil users, farmers, and perhaps even for small refiners.

Thirteen senators from the Northeast have filed a resolution warning that any import fee should exempt home heating oil.

DiBona says raising the gasoline tax also would be an inefficient way to encourage U.S. production. But government can do something to spur drilling at a time when prices are declining.

"It would be far more rational to approach this goal directly by abolishing an existing tax, the 'windfall profits' tax, which discourages oil production, and by avoiding the imposition of new, discriminatory treatment of the oil industry such as that contained in the tax reform bill recently produced by the House of Representatives," the API executive says.

The Independent Petroleum Association of America agrees with API on that.

At a recent meeting, IPAA directors voted to reassert their long standing position against a crude or products import fee.

Tax Oil to Save Oil

As surely as rising oil prices taught Americans to conserve energy, lower prices will lead them to forget. That would be a national tragedy, and a foolish security risk. Prices are falling because we conserved. Now that the price is not incentive enough to save, add a tax.

No new oil price shock is in sight. But the world's affordable supplies are still being depleted, and the risk of upheaval in the Middle East is ever present. As long as they last, lower prices mean greater consumption the world over.

Homeowners won't tear out insulation bought when heating costs soared; new energy-efficient buildings won't be razed. But the pressure to spend money for more conservation is being lost.

Just think about automobiles, which burn more than half the oil we consume. At less than \$1 a gallon, drivers lose their incentive to slow down and tune up, and they stop caring about mileage ratings on new cars. They drift back into larger models, and Government can't resist relaxing the regulations that made the biggest '86 cars more efficient than the smallest in 1973.

America consumed 17.5 million barrels of oil a day in 1973. Today, in an economy one-third larger, consumption has fallen below 16 million. Dependence on foreign oil has also declined, from 36 percent of consumption in 1973 to 30 percent, and, significantly, the decline is much sharper for Persian Gulf oil.

The Reagan Administration wants only to reap the disinflation benefits. It favors more off-shore domestic drilling and, rightly, more deregulation of natural gas. But it is blindly rushing past this chance to build up the Strategic Petroleum Reserve at bargain prices. For transient budget benefit, it would even sell off three naval reserve fields. And it has unwisely relaxed the pressure on Detroit's car designers.

Federal fuel standards and other regulation would be less necessary if we turned to a tax to encourage more conservation. With prices falling, we

could conserve by paying ourselves instead of Middle East potentates.

What's the best form of tax? On alternate days, President Reagan offers to consider a tax on oil imports — provided it's called a "fee" and is used to finance tax-law revisions. Congress, too, seems to prefer an import fee to a tax on gasoline or all energy. An all-energy tax, in any case, would have no special impact on oil consumption. The choice comes down to taxing imported oil and refined products or taxing gasoline at the pump.

An import fee would reduce dependence on foreign sources and encourage domestic production. The oil patch likes the idea because raising the price of foreign oil would let American producers charge more for domestic oil. The consuming states of the Northeast and West Coast and Florida balk at the idea and would, at the least, insist on taxing away the domestic producers' windfall. So taxing imports would lead to taxing all oil.

That would raise the cost of living, retard growth and damage friendly suppliers, like Mexico and Canada, which might need exemptions. The petrochemical industry, too, would want exemption, and who knows who else. The administrative complexity is offset by the political attraction: the public wouldn't much notice an import fee.

A gasoline tax would be highly visible even if it only held prices at prior levels. But it would be simple to administer atop the existing Federal tax of 9 cents a gallon. And it would not discriminate against any region.

Either tax could be shaped to yield as much as \$100 billion over five years — \$8 a barrel on imports combined with a 50 percent "windfall" profits tax, or 20 to 25 cents a gallon on gasoline. The revenue could help balance the Federal budget and thus improve the economy.

The main and lasting benefit of either tax would be in conservation and national security. An oil conservation tax is good policy any time. It is more easily achieved now that prices are down.

STATE OF ALASKA 1986 LEGISLATIVE SESSION

FISCAL NOTE

Revision Date : _____

REQUEST

Bill/Resolution No. : HJR 66
 Title : Relating to a Federal tax on
imported oil
 Sponsor : Reps. Pignalberi & Gruenberg
 Requestor : Rep. Pignalberi
 Date of Request : 2-26-86

FISCAL DETAIL

Agency Affected : _____
 BRU : _____
 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						
		807,800	653,422	634,443	592,890	528,121

ANALYSIS : Attach a separate page if necessary

See attached.

Prepared by : Charles L. Wagsdon *Vincent Wright*

Division : Research *M.C.L.*

Approved by Commissioner : *Henry G. Stendahl*

Agency : _____

Phone : 276-5364

Date : March 4, 1986

Date : 3/17/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

HJR 66 Fiscal Note Analysis

Current legislation to tax imported oil amounts to an approximate \$5/bbl charge based on current oil prices. This fiscal note assumes that this tax results in a dollar for dollar increase of \$5/bbl in the price of Alaskan oil over what it would have been in the absence of the tax. The revenue impacts are based on March projections of Alaska North Slope production and include only the impact on royalties and severance tax.

The import tax on petroleum and petroleum products would without a doubt help prevent what could be an abrupt and severe dislocation in the Alaskan economy due to the tax base erosion, devaluation of State royalties, and decline in oil industry activity which may result from the recent oil price plunge. However, a clear majority of economists feel such a tax is on balance not a good idea for the nation as a whole. This Department cannot evaluate the short and long term effects on Alaska which may result from political considerations rising out of economic consequences on the national scene.



RECORDS CERTIFICATION



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AMENDMENT #1 TO SB 309
BY SUND

* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

Within 90 days after the written request of a lessee of a lease issued under this section, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production sold by the lessee under the contract unless the commissioner makes a written finding:

- (1) that the contract price is unreasonably low; and
- (2) the prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, and
- (3) the lessee and the utility are not related in management, ownership, or other aspect, and
- (4) the contract price is not in the best interest of the state.

AMENDMENT #2 TO SB 309
BY SUND

* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

The commissioner may enter into a contract to sell royalty gas in kind to a gas or electric utility at less than market value of the royalty gas if the commissioner makes a written finding that the sale is in the best interest of the state. The commissioner shall consider the consumer benefits, other benefits and detriments of the sale.

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Sectional Analysis Proposed Oil and Gas Committee Substitute for CSSB 309 (Rules)

Sec. 1. Findings. It is in the best interest of the state to authorize the commissioner of DNR to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility. This authorization applies only prospectively, and this Act does not apply to state policies regarding the sale of royalty oil.

Sec. 2. The commissioner shall enter into an agreement with a lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, provided that:

- a. the lessee and the utility are not related.
- b. the agreement is requested in writing by the lessee.
- c. the commissioner does not make a written finding that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers.

This section states that a "gas or electric utility" includes electric cooperatives (such as Chugach, Matanuska, Homer, rural co-ops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light & Power), and gas utilities regulated under AS 42.05 (such as Enstar).

This section also states that, for purposes of this Act, the state's royalty share of gas production does not include gas production from mental health lands or school lands.

Sec. 3. Adds a new subsection to AS 38.05.183, which provides that the commissioner may sell royalty gas taken in-kind to a gas or electric utility at less than market value if the commissioner makes a written finding that the sale is in the best interest of the state. The same definitions for "gas or electric utility" and "royalty gas taken in kind by the state" found in sec. 2 of this legislation are also found in this section.

Sec. 4. Amends AS 38.05.810(a) to make this subsection consistent with the other provisions of the Act.

Sec. 5. Provides that AS 38.05.180(aa), which would be enacted by sec. 2 of this legislation, applies to agreements to establish the in-value royalties on gas production that are sold under a contract entered into, on or after the effective date of the act between the state's lessee and a gas or electric utility.

Sec. 6. Provides for an immediate effective date.

Proposed Amendment to CSSB 309 (Oil & Gas)

Page 2, Line 16

AS 38.05.180(aa)(1) is amended to read:

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120; and

Page 3, Line 3

AS 38.05.183(h) is amended to read:

In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120.

Bannister
4/7/86 ✓

Original sponsors: Faiks, Kelly
and V.Fischer

1 IN THE SENATE

BY THE HOUSE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR SENATE BILL NO. 309 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-
7 viding for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. FINDINGS. The legislature finds that the best interest of
10 the state will be served if the commissioner of natural resources is au-
11 thorized to establish the in-value royalty for gas sold to a gas or elec-
12 tric utility by using the contract price between the lessee of the state
13 and the utility, whether or not the gas lease establishes a different stan-
14 dard for the valuation and if the lessee and the utility are not related to
15 each other. The legislature finds that this authorization should apply
16 prospectively and does not intend the authorization to apply to the val-
17 uation for royalty purposes of gas sold by a lessee under a gas sales
18 contract entered into before the effective date of this Act. The legisla-
19 ture does not intend this Act to apply to the policies of the state regard-
20 ing the sale of royalty oil.

21 * Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

22 (aa) Within 90 days after the written request of a lessee of a
23 lease issued under this section, unless the commissioner makes a
24 written finding that the contract price is unreasonably low and that a
25 prospective reduction in royalty receipts would not be balanced by
26 increased benefits to in-state gas and electric consumers, the commis-
27 sioner shall enter into an agreement with the lessee to use the price
28 for the gas established in the contract between the lessee and a gas
29 or electric utility, if the lessee and the utility are not related in

1 management, ownership, or other aspect, as the value of the state's
2 royalty share of gas production sold by the lessee under the contract
3 to the utility. In this subsection

4 (1) "gas or electric utility" includes an electric coopera-
5 tive organized under AS 10.25, a municipal utility, and a gas or
6 electric utility regulated under AS 42.05;

7 (2) "price for the gas established in the contract" in-
8 cludes tax reimbursement amounts, deliverability and other charges,
9 and other forms of consideration paid by the gas or electric utility
10 under the contract;

11 (3) "state's royalty share of gas production" does not
12 include the state's royalty share of gas production from land patented
13 to the state under

14 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health
15 Enabling Act);

16 (B) 38 Stat. 1214 (Act of March 4, 1915); or

17 (C) 43 U.S.C. 1635 in settlement of the claims of the
18 state under 38 Stat. 1214.

19 * Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

20 (h) The commissioner may enter into a contract to sell royalty
21 gas taken in kind by the state to a gas or electric utility at less
22 than the market value of the royalty gas if the commissioner, after
23 considering the consumer benefits, other benefits, and detriments of
24 the sale, makes a written finding that the sale is in the best inter-
25 est of the state. In this subsection,

26 (1) "gas or electric utility" includes an electric coopera-
27 tive organized under AS 10.25, a municipal utility, and a gas or
28 electric utility regulated under AS 42.05;

29 (2) "royalty gas taken in kind by the state" does not

1 include royalty gas taken in kind by the state from gas production on
2 land patented to the state under

3 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health
4 Enabling Act);

5 (B) 38 Stat. 1214 (Act of March 4, 1915); or

6 (C) 43 U.S.C. 1635 in settlement of the claims of the
7 state under 38 Stat. 1214.

8 * Sec. 4. AS 38.05.810(a) is amended to read:

9 (a) Except as otherwise provided in AS 38.05.183(h), the [THE]
10 lease, sale, or other disposal of state land or resources may be made
11 to a state or federal agency or political subdivision, or the lease,
12 sale, or disposal of coal deposits suitable for mining may be made to
13 a utility owned and operated by a government agency or nonprofit
14 cooperative association organized to participate under the Federal
15 Rural Electrification Act for the purpose of generating electric power
16 and energy or the production of process steam, or both, for less than
17 the appraised value as determined by the director and approved by the
18 commissioner to be fair and proper and in the best interests of the
19 public, with due consideration given to the nature of the public
20 services or function rendered by the agency, subdivision, or utility
21 making application, and of the terms of the grant under which the land
22 was acquired by the state.

23 * Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to
24 agreements to establish for a lease issued under AS 38.05.180 the in-value
25 royalties on gas production that is sold under a contract entered into on
26 or after the effective date of this Act between the state's lessee and a
27 gas or electric utility.

28 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
29 10.070(c).

STATE OF ALASKA



POUCH V
JUNEAU, ALASKA 99811
(907) 485-4941

HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Sectional Analysis Proposed Oil and Gas Committee Substitute for CSSB 309

Sec. 1. Findings. It is in the best interest of the state to authorize the commissioner of DNR to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility. This authorization applies only prospectively, and this Act does not apply to state policies regarding the sale of royalty oil.

Sec. 2. The commissioner shall enter into an agreement with a lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, provided that:

- a. the lessee and the utility are not related.
- b. the agreement is requested in writing by the lessee.
- c. the commissioner does not make a written finding that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers.

This section states that a "gas or electric utility" includes electric cooperatives (such as Chugach, Matanuska, Homer, rural co-ops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light & Power), and gas utilities regulated under AS 42.05 (such as Enstar).

This section also states that, for purposes of this Act, the state's royalty share of gas production does not include gas production from mental health lands or school lands.

Sec. 3. Adds a new subsection to AS 38.05.183, which provides that the commissioner may sell royalty gas taken in-kind to a gas or electric utility at less than market value if the commissioner makes a written finding that the sale is in the best interest of the state. The same definitions for "gas or electric utility" and "royalty gas taken in kind by the state" found in sec. 2 of this legislation are also found in this section.

Sec. 4. Amends AS 38.05.810(a) to make this subsection consistent with the other provisions of the Act.

Sec. 5. Provides that AS 38.05.180(aa), which would be enacted by sec. 2 of this legislation, applies to agreements to establish the in-value royalties on gas production that are sold under a contract entered into, on or after the effective date of the act between the state's lessee and a gas or electric utility.

Sec. 6. Provides for an immediate effective date.

Proposed Amendment to CSSB 309 (Oil & Gas)

AS 38.05.180(aa)(1) is amended to read:

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120; and

AS 38.05.183(h) is amended to read:

In this subsection, "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and the gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120.

SUMMARY OF CSSB 309 (RULES)

The Bill will allow the state to provide certainty in royalty gas valuation for Alaska consumer uses and North Slope gas development.

Specifically, the Bill would:

- ° Authorize the Commissioner of the Department of Natural Resources to accept a contract price between a state lessee (gas producer) and a gas or electric utility as the value of the state's royalty share of production.
- ° Authorize the Commissioner of the Department of Natural Resources to sell the state's royalty gas to a gas or electric utility at a price below market value. The Legislature reviews long-term sales under existing law.
- ° Establish a royalty valuation procedure which will facilitate financing for a North Slope gas pipeline.

"Gas or electric utility" includes cooperative electric utilities (such as Chugach, Matanuska, Homer, rural coops, and Golden Valley Electric), municipal utilities (such as Anchorage Municipal Light and Power), and a gas utility regulated under AS 42.05 (such as Enstar).

The Act would apply only to future contracts between a lessee and a purchaser.

A preliminary settlement agreement between the Department of Natural Resources and the Board of Directors of Chugach Electric, which would settle pending litigation over the value of the state's royalty share of Beluga gas now purchased by Chugach at \$0.26/mcf, is contingent on passage of the bill. The preliminary settlement agreement sets the price of Beluga royalty gas under the existing Chugach contract at \$0.75/mcf.

Revenue Impact: Section 3 of the Bill, which authorizes the Commissioner to sell royalty gas taken in kind to a gas or electric utility at a price below market value, could result in lower state revenues in the future if this discretionary authority is exercised. The amounts of potential revenue loss cannot be precisely calculated, but would be identified at the time of the sale, when legislative review would occur. The state could also lose or gain revenue by any disparity between contract prices and market values, but this fiscal impact is not predictable.

Section-by-Section Analysis of CSSB 309 (Rules)

Section 1 of the Bill makes several findings:

- The best interest of the state will be served if the commissioner of Natural Resources is authorized to establish the in value royalty for gas sold to a gas or electric utility by using the contract price between the state lessee and the utility;
- It is in the best interest of the state to give the commissioner explicit discretionary authority to sell in kind royalty gas to a gas or electric utility at a price below market value;
- The proper exercise of discretion conferred by the Act will support and complement the other energy programs of the state;
- The state should adopt a policy for the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity; and
- It is in the state's best interest to facilitate the financing and construction of a pipeline and increased gas production from the Prudhoe Bay reservoir by establishing a procedure by which the state could commit itself to a royalty valuation methodology for as long as the state takes its royalty share of gas production in value.

Section 2 adds new subsections to AS 38.05.180:

- Subsection (aa) provides that within 90 days after the written request of a lessee, unless the commissioner makes a written finding based on clear and convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price established in a contract between the lessee and a gas or electric utility as the value of the state's royalty share of gas production, if the lessee and the utility are not related. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.
- Subsection (bb) provides that in the event of a contract between unrelated parties for the sale of gas from the Prudhoe Bay reservoir for delivery through a pipeline for export out of the state, the commissioner shall within 90 days after the written request of a lessee enter into an agreement with the lessee to use the price for gas established in the gas sales contract as the value of the state's royalty share of gas production, unless the

commissioner makes a written finding that the contract price does not assure the maximum benefits to the people of the state in return for the state's gas resources. The lessee shall have the burden of providing all information necessary for the commissioner to make an informed decision, and shall provide clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, or other profit or cost centers.

Section 3 adds a new subsection to AS 38.05.183:

- Subsection (h) provides that the commissioner may sell royalty gas taken in kind to a gas or electric utility at less than the market value of the gas, if the commissioner, after considering the consumer benefits, other benefits, and detriments of the sale, makes a written finding that the sale is in the best interest of the state. "Gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05.

Section 4 amends AS 38.05.810(a) to make it consistent with the other provisions of the Act.

Section 5 provides that the proposed AS 38.05.180(2a), which would be enacted by Section 2 of the Act, applies to agreements to establish the in value royalties on gas production that is sold under a contract entered into on or after the effective date of the act between the state's lessee and a gas or electric utility.

Section 6 provides an immediate effective date.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUGH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

The Honorable John Sackett
Co-Chair, Finance Committee
Alaska State Senate
Juneau, AK 99811

March 3, 1986

Dear Senator Sackett:

I am responding to your request for more information on the fiscal note and potential fiscal impact of CSSB 309 (Res), now before the Senate as CSSB 309 (Rules).

The fiscal note

The department has submitted a zero fiscal note for the bill, which will not directly affect the state's current royalty gas revenue stream. There are two reasons that it is not possible to identify future costs of the legislation:

- the department is not able to predict how often the new valuation mechanism will be applied in the future, nor can we predict future gas contract prices and quantities; and
- market values for Alaska natural gas (particularly Cook Inlet gas now sold for instate consumer uses and most immediately affected by the proposed statute) are unpredictable, as is the possible disparity (positive or negative) between contract price and market value.

Even though there is no direct fiscal impact that can be assigned to the bill, enactment of the legislation will indirectly affect state royalty income from existing production in Cook Inlet. The state has entered into an agreement with Chugach Electric to value the state's royalty share from Beluga Field production purchased by Chugach under existing contracts at \$0.75/mcf if the legislation passes. This value is one-half the state's January offer to settle the pricing dispute at \$1.50/mcf, which was rejected by the Beluga producers who sell to Chugach. If the dispute had been settled at \$1.50/mcf under existing state law, the

state would have received approximately \$1.9 million/year in new royalty income from the Beluga field. Settlement at \$0.75/mcf, as will occur if CSSB 309 (Rls) is passed, will increase state royalty revenues from Beluga production by about \$810,000/year, according to our calculations, because the state's share of this production is currently valued at \$0.21/mcf by the producers. This increase in state royalty revenues is less than would have been expected if 1) the state's \$1.50/mcf settlement offer had been accepted, or 2) the state had successfully pursued its legal arguments regarding the value of the state's royalty share under the existing lease terms, based on existing law.

Future costs to the State

As stated above, the department has submitted a zero fiscal note because it is unable to predict future market conditions and contract terms for Alaska natural gas. It is important for the Legislature to consider that market value in the future could either exceed or remain below long-term contract prices for instate consumer gas purchases. The present situation in the Beluga field is an example of how long-term contract prices (Chugach at an adjusted \$0.26/mcf and Enstar at an adjusted \$2.05/mcf) can be above or below "market value" simultaneously in the same field.

Section 2. The fiscal impacts of Section 2(aa) of CSSB 309 (Rls) will largely depend on future market and contract conditions in Cook Inlet, unless there is a commitment of North Slope natural gas by the producers for instate use. The natural gas market for instate energy use will be affected by the costs of thermal and hydroelectric energy alternatives, including new or expanded coal development; production from new or shut-in gas sources; geothermal development (which has been discussed in connection with Beluga coal development); hydroelectric construction; export projects for coal, gas, or oil; and the price of fuel oil and diesel as alternative fuel sources. There have been some projections of Cook Inlet gas prices by other agencies that this department has disputed on grounds that the Cook Inlet market remains largely controlled by local factors rather than world gas or oil prices or exports. If North Slope natural gas is brought to market its pricing and availability will also become an important factor in the fiscal impact of this bill (Section 2(bb)). Because the eventual marketing arrangements for Prudhoe Bay gas would

The Hon. John Sackett

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March 3, 1986

probably have to be less diverse and more stable than are marketing arrangements for Cook Inlet gas, it is likely that there would be less disparity between Prudhoe Bay contract price and market value, although the fiscal impact of accepting the contract price as the state's royalty value (given the magnitude of the Prudhoe Bay gas resource) might be larger, either positively or negatively affecting the state's revenues.

Section 3. This section gives the commissioner authority to make below-market-value gas sales for instate energy use. Because the Legislature reviews long-term royalty oil and gas contracts before their implementation by the Department, the fiscal impact of this section will be considered by future Legislatures reviewing such below-market-value gas sales by the state. Without knowledge of how often or at what cost the state will exercise this option, there is no way to estimate the fiscal impact of enacting this statute.

Please contact me if you have any further questions or comments. I am providing copies of this letter to other members of the Senate in anticipation of the floor debate on CSSB 309 (Rls) this morning. Thank you for your interest in this issue.

Sincerely,



Esther C. Wunnicke
Commissioner

cc: All Senators
Dr. Joyce Murphy, Chugach Electric

Work Draft

March 26, 1986

1 IN THE HOUSE BY THE HOUSE SPECIAL COMMITTEE
2 ON OIL AND GAS
3 CS FOR SENATE BILL NO. 309 (RULES)
4 IN THE LEGISLATURE OF THE STATE OF ALASKA
5 FOURTEENTH LEGISLATURE - SECOND SESSION

6 A BILL

7 For an Act entitled: "An Act relating to royalty gas
8 contracts; and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA;

10 * Section 1. FINDINGS. (a) The legislature finds that the
11 best interest of the state will be served if the commissioner
12 of natural resources is authorized to establish the in-value
13 royalty for gas sold to a gas or electric utility by using the
14 contract price between the lessee of the state and the
15 utility, whether or not the gas lease establishes a different
16 standard for the valuation and if the lessee and the utility
17 are not related to each other. The legislature finds that
18 this authorization should apply prospectively and does not
19 intend the authorization to apply to the valuation for royalty
20 purposes of gas sold by a lessee under a gas sales contract
21 entered into before the effective date of this Act. The
22 legislature states that this Act shall not apply to the
23 policies of the state for the sale of royalty oil.

1 (b) The legislature finds that it is in the state's best
2 interest to facilitate the financing and construction of
3 pipelines and increased gas production from state gas leases
4 for industrial and export uses by establishing a procedure by
5 which the state could commit itself to a long-term royalty
6 valuation methodology.

7 * Sec. 2. AS 38.05.180 is amended by adding subsections
8 (aa) and (bb) to read:

9 (aa) Within 90 days after the written request of a lessee
10 of a lease issued under this section, the commissioner may
11 enter into an agreement with the lessee to use the price for
12 the gas established in the contract between the lessee and a
13 gas or electric utility, if the lessee and the utility are not
14 related in management, ownership, or other aspect, as the
15 value of the state's royalty share of gas production sold by
16 the lessee under the contract to the utility. The
17 commissioner may enter into such an agreement after conducting
18 public hearings and making a written determination that the
19 contract price is reasonable and that a prospective reduction
20 in royalty receipts would be balanced by increased benefits to
21 in-state gas and electric consumers. The lessee shall have
22 the burden of providing all information necessary for the
23 commissioner to make an informed decision, and shall provide
24 clear and convincing evidence that the contract price is
25 reasonable and that a prospective reduction in royalty
26 receipts would be balanced by increased benefits to in-state
27 gas and electric consumers.

1 (1) "gas or electric utility" includes an electric
2 cooperative organized under AS 10.25, a municipal utility, and
3 a gas or electric utility regulated under AS 42.05, provided
4 that if the contract gas is transmitted to consumers through a
5 pipeline and the gas utility either owns the pipeline or is
6 related in ownership to the owner of the pipeline, then the
7 gas utility qualifies as a "gas or electric utility" within
8 the meaning of this subsection only if it is bound or agrees
9 to be bound by the covenants set forth in AS 38.35.120; and

10 (2) "price for the gas established in the contract"
11 includes tax reimbursement amounts, deliverability and other
12 charges, and other forms of consideration paid by the gas or
13 electric utility under the contract.

14 (bb) In the event of a contract for the sale of gas from a
15 gas lease issued under this section which does not qualify
16 under subsection (aa), the commissioner may enter into an
17 agreement with the lessee to use the price for the gas
18 established in the gas sales contract as the value of the
19 state's royalty share of gas production sold by the lessee
20 under the gas sales contract. The commissioner may enter into
21 such an agreement after conducting public hearings and making
22 a written determination that the contract price assures the
23 receipt of maximum benefits to the people of the state in
24 return for the state's gas resources. In order to invoke this
25 subsection, a lessee must make its written request no later

1 than 90 days after the first delivery of gas under the gas
2 sales contract. The commissioner shall then act on the
3 request in writing within 120 days. The agreement between the
4 lessee and the commissioner may be for a lesser period of time
5 than that covered by the lessee's gas sales contract, and may
6 provide for a periodic review of the royalty value term by the
7 commissioner. The lessee shall have the burden of providing
8 all information necessary for the commissioner to make an
9 informed decision, and shall provide clear and convincing
10 evidence that the value of the gas is reflected by the gas
11 sales contract price rather than being attributed to
12 transportation, marketing, or other profit or cost centers.
13 The legislature may disapprove an agreement between the
14 commissioner and a lessee under this subsection by passing a
15 resolution within 60 days of the convening of the next regular
16 legislative session. In this subsection, "price for the gas
17 established in the gas sales contract" includes tax
18 reimbursement amounts, deliverability and other charges, and
19 other forms of consideration received by the lessee under the
20 gas sales contract.

21 * Sec. 3. AS 38.05.183 is amended by adding a new
22 subsection (h) to read:

23 (h) The commissioner may enter into a contract to sell
24 royalty gas taken in-kind by the state to a gas or electric
25 utility at less than the market value of the royalty gas if
26 the commissioner, after considering the consumer benefits,
27 other benefits, and detriments of the sale, conducts public

1 hearings and makes a written determination that the sale is in
2 the best interest of the state. In this subsection, "gas or
3 electric utility" includes an electric cooperative organized
4 under AS 10.25, a municipal utility, and a gas or electric
5 utility regulated under AS 42.05, provided that if the
6 contract gas is transmitted to consumers through a pipeline
7 and the gas utility either owns the pipeline or is related in
8 ownership to the owner of the pipeline, then the gas utility
9 qualifies as a "gas or electric utility" within the meaning of
10 this subsection only if it is bound or agrees to be bound by
11 the covenants set forth in AS 38.35.120.

12 * Sec. 4. AS 38.05.810(a) is amended to read:

13 (a) Except as otherwise provided in AS 38.05.183(h), the
14 [The] lease, sale, or other disposal of state land or
15 resources may be made to a state or federal agency or
16 political subdivision, or the lease, sale, or disposal of coal
17 deposits suitable for mining may be made to a utility owned
18 and operated by a government agency or nonprofit cooperative
19 association organized to participate under the Federal Rural
20 Electrification Act for the purpose of generating electric
21 power and energy or the production of process steam or both,
22 for less than the appraised value as determined by the
23 director and approved by the commissioner to be fair and
24 proper and in the best interests of the public, with due
25 consideration given to the nature of the public services or
26 function rendered by the agency, subdivision, or utility
27 making application, and of the terms of the grant under which
28 the land was acquired by the state.

1 * Sec. 5. AS 38.05.180(aa) and (bb), enacted by sec. 2 of
2 this Act, apply to agreements to establish for a lease issued
3 under AS 38.05.180 the in-value royalties on gas production
4 that are sold under a contract entered into, on, or after the
5 effective date of this Act between the state's lessee and a
6 gas or electric utility.

7 * Sec. 6. This Act takes effect immediately in accordance
8 with AS 01.10.070(c).

9 * Sec. 7. This Act does not apply to gas royalties due on
10 production from land patented to the state under the Alaska
11 Mental Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 209
12 (mental health lands), and the Act of March 4, 1915, ch. 181,
13 38 Stat. 1214 and sec. 906(b) of the Alaska National Interest
14 Lands Conservation Act, P.L. 96-487, 94 Stat. 2430 (school
15 lands).

3-25-86

COMMITTEE CS FOR SENATE BILL NO.
309 (Rules) IN THE LEGISLATURE FOR THE
STATE OF ALASKA
FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to royalty gas contracts;
and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. (a) The legislature finds that the best interest of the state will be served if the commissioner of natural resources is authorized to establish the in-value royalty for gas sold to a gas or electric utility by using the contract price between the lessee of the state and the utility, whether or not the gas lease establishes a different standard for the valuation and if the lessee and the utility are not related to each other. The legislature finds that this authorization should apply prospectively and does not intend the authorization to apply to the valuation for royalty purposes of gas sold by a lessee under a gas sales contract entered into before the effective date of this Act.

(b) The legislature finds that it is also in the best interest of the state to give the commissioner explicit discretionary authority to sell royalty gas received in kind by the state to gas or electric utilities at a price that is below market value.

(c) The legislature finds that the proper exercise of the discretion conferred on the commissioner by this Act would support and complement the other programs that assist the citizens of the state with their long-term gas and electrical needs, including the power cost equalization program under AS 44.83.162 - 44.83.165 and hydroelectric and other programs for the generation of electricity.

(d) The legislature finds that the state should adopt a policy for the sale of royalty gas to gas or electric utilities for in-state consumer use and in-state generation of electricity that is fundamentally different from the policies of the state for the sale of royalty oil and for the sale of royalty gas for export from the state or for uses other than in-state consumer use and in-state generation of electricity.

(e) The legislature finds it is in the state's best interest to facilitate the financing and construction of pipelines and increased gas production from state gas leases for industrial and export uses by establishing a procedure by which the state could commit itself to a royalty valuation methodology for as long as the state takes its royalty share of gas production in value.

* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

(aa) Within 90 days after the written request of a lessee of a lease issued under this section, unless the commissioner makes a written finding based on clear and

convincing evidence that the contract price is unreasonably low and that a prospective reduction in royalty receipts would not be balanced by increased benefits to instate gas and electric consumers, the commissioner shall enter into an agreement with the lessee to use the price for the gas established in the contract between the lessee and a gas or electric utility, if the lessee and the utility are not related in management, ownership, or other aspect, as the value of the state's royalty share of gas production sold by the lessee under the contract to the utility. In this subsection

(1) "gas or electric utility" includes an electric cooperative organized under AS 10.25, a municipal utility, and a gas or electric utility regulated under AS 42.05, provided that if the contract gas is transmitted to consumers through a pipeline and a gas utility either owns the pipeline or is related in ownership to the owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within the meaning of this subsection only if it is bound or agrees to be bound by the covenants set forth in AS 38.35.120; and

(2) "price for the gas established in the contract" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the gas or electric utility under the contract.