

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1535 SCOMM 57: SENATE SPECIAL COMMITTEE ON OIL & GAS, 1987-1988 1332

Nukapigak, Joe

- 1985 Letter from President, Kuukpiik Corporation, to Kay Brown, Director, Division of Oil and Gas, regarding local hire and contracting and oil and gas activities near Nuiqsut, July 26.

Oil and Gas Journal

- 1986a Big U.S. Productive Capacity Cuts Seen If Prices Stay Low. March 3, p. 34.
1986b First Quarter Crude Price, Drilling Plunges Wrack U.S. Oil Industry. March 31, p. 43-48.

Oil /Whalers Working Group

- 1986 Cooperative Programs for the Beaufort Sea.

Pedersen, Sverre and Michael Coffing

- 1984 Caribou Hunting: Land Use Dimensions and Recent Harvest Patterns in Kaktovik, Northeast Alaska. Department of Fish and Game, Division of Subsistence, Fairbanks, Technical Paper 92.

Research Foundation of State University of New York

- 1984 Ethnographic Study and Monitoring Methodology of Contemporary Economic Growth, Socio-cultural Change and Community Development in Nuiqsut, Alaska. Mineral Management Service, Alaska OCS Region, Technical Report 96.

Robinson, Jim

- 1985 Letter from Commissioner, Department of Labor, to Sally Gilbert, State CSU Coordinator, Office of Management and Budget, Division of Governmental Coordination, Office of the Governor, regarding Oil and Gas Lease Sales 45, 47, 48, 48A, 50, 51, and 53, September 10.

Rogers, Randy

- 1986 Letter from Executive Director, Northern Alaska Environmental Center to Pam Rogers, Lease Sales Manager, Division of Oil and Gas, regarding proposed Oil and Gas Lease Sale 50, April 15.

Rogusky, E. A. and E. Komarek, Jr.

- 1971 Annual progress report for monitoring and evaluation of arctic waters with emphasis on the North Slope drainages. Alaska Department of Fish and Game (ADF&G), Division of Sport Fish. Project F-9-3.

Sadek, Brenda

- 1986 Personal communication between Oil and Gas Conservation Commission and Bill Seidler, Division of Oil and Gas, regarding the number of wells drilled in Alaska, May 8.

Stroebele, Jerald

- 1983 Letter from Field Supervisor, Northern Alaska Ecological Services, to Kay Brown, Director, Division of Minerals and Energy Management, regarding proposed State of Alaska Lease Sales 50, 54 and 55, September 21.
1985 Letter from Field Supervisor, Northern Alaska Ecological Services, to Kay Brown, Director, Division of Minerals and Energy Management, regarding proposed State of Alaska Lease Sales 48, 50, 51, and 53, September 25.

Tweedt, Peter L.

1986 Letter from Director, Office of Ocean and Coastal Resource Management, U.S. Department of Commerce, to Robert L. Grogan, Division of Governmental Coordination, Office of the Governor, State of Alaska, regarding the North Slope Borough Coastal Management Program, August 8.

U.S. Department of the Interior (USDOI)

1982 Final Environmental Impact Statement. Proposed Outer Continental Shelf Oil and Gas Lease Sale 71 Diapir Field, Alaska OCS Office.

1984 Final Environmental Impact Statement. Proposed Diapir Field Lease Offering (June 1984). Minerals Management Service, Alaska OCS Region.

U.S. Fish and Wildlife Service (USFWS)

1982 Arctic National Wildlife Refuge coastal plain resource assessment. Initial report baseline study of the fish and wildlife and their habitats. Section 1002c Alaska National Interest Lands Conservation Act, U.S. Department of Interior, U.S. Fish and Wildlife Service, Region 7, Anchorage, Alaska, April.

Michael Wheeler

1986 Memorandum from Division of Environmental Quality, Department of Environmental Conservation, to Leila Wise, Division of Oil and Gas, regarding the Camden Bay Sale 50 Environmental Information Request, April 4.

APPENDIX 1
SUMMARY OF COMMENTS

1) National Audubon Society: (D.R. Cline/3-17-1986)

Recommends cancelling both Sale 50 and Sale 55.

- a) The title to the submerged lands between the mainland and the barrier islands as well as the boundary between the United States and Canadian waters is in dispute.
- b) The Congressional decision on inclusion of the arctic coastal plain in the National Wilderness Preservation System will not be made until after September 1986.
- c) The barrier island/lagoon ecosystem along the coast of the Arctic National Wildlife Refuge is a critical habitat for fish and wildlife which could suffer a negative impact from oil and gas exploration and associated development.
- d) Oil and gas development along the coast of the Arctic National Wildlife Refuge could threaten the subsistence resources and lifestyles of the residents of Kaktovik.
- e) Development of submerged lands along the coast of ANWR would aesthetically degrade the wilderness character of the refuge.

2) Trustees for Alaska: (R.W. Adler/9-24-1985 & 3-13-1986)

Recommends cancelling Sale 50.

- a) Development in the Sale 50 area would likely require onshore support, transportation and other facilities, sale of oil and gas leases here would be inconsistent with the intent in creating ANWR.
- b) Development in the sale area would jeopardize the wilderness and important habitats that Congress sought to protect with the creation of ANWR. This coastal plain and shallow coastal water environment represents a critical habitat that supports numerous species of birds, fish, as well as marine and terrestrial mammals.
- c) Development in this area would threaten a region heavily used by Alaskans for subsistence and sport hunting and would not be in the best interest of the state.
- d) Until title disputes are resolved on the coastal plain, it would be inappropriate to continue planning for this sale.
- e) Considering recent depressed world oil markets and industry cutbacks, the bonus potential of lease tracts would be extremely low. With Alaska's current fiscal crisis, Sale 50 would not be in the state's best interest.

3) Northern Alaska Environmental Center: (M. Matz/9-26-1985,
R. Rogers/4-15-1986)

Recommends postponement or cancellation of Sale 50.

- a) Considering the dispute over title to portions of the Sale 50 area and a pending Congressional decision concerning exploration and development in ANWR it would seem premature to hold this sale.

Northern Alaska Environmental Center continued:

- b) Exploration activities in the sale area would have a serious impact on the wildlife resources of the refuge.
 - c) Oil and gas activities along the Arctic coast could detrimentally impact subsistence lifestyles and recreational resources.
- 4) The North Slope Borough: (G. Ahmaogak/9-26-1985, L. Ahvakana/9-23-1983)
- Recommends cancelling Sale 50.
- a) Oil and gas activities may alter traditional feeding and migratory patterns of the bowhead whales and effect subsistence whale hunting.
 - b) Oil and gas activities could impact the access to or quality of the subsistence fishery on the Canning River.
 - c) Oil and gas activities on native allotments must be authorized.
 - d) Residents of the North Slope Borough must be given job preference.
- 5) City of Nuiqsut: (M. Kovalsky/9-10-1985)
- a) Nuiqsut wants no seismic activities during fall whaling and is concerned about whale migration and fish and wildlife habitat.
 - b) The Nuiqsut City Council supports the City of Kaktovik.
 - c) Nuiqsut City Council requests that public hearings be held prior to any lease sales affecting their community.
- 6) The Wilderness Society: (S. Alexander/3-17-1986)
- Recommends cancelling Sales 50, 51 and 55.
- a) The sales violate national interest. Their proximity to ANWR conflicts with the purpose and intent in the creation of the refuge.
 - b) State offering of oil and gas leases in this region may influence the Congressional decision over leasing on the arctic coastal plain.
 - c) Subsequent development of proposed sale areas could threaten fish and wildlife populations of the Arctic Refuge.
 - d) The subsistence lifestyles of people in Kaktovik and other rural areas dependant on fish and wildlife could be placed in jeopardy.
- 7) Sierra Club: (I Matz/3-31-1986)
- Recommends cancelling Sales 50, 51 and 55.
- a) The low value of oil and economically inviable development and production would net poor returns for Alaska's natural resources.
 - b) Uncertain status of adjacent areas in ANWR.
 - c) Development is incompatible with this type of wilderness from which all Americans benefit. Development may cause damage to fish and wildlife on which local residents depend for subsistence.

- 8) BP Alaska Exploration Inc.: (C.S. Gibson-Smith/3-10-1986)

Recommendation is to hold Sale 50 as scheduled.

- a) With no existing transportation facilities, development costs in this area will be high, the terms of the lease should reflect these economic constraints.

- 9) Chevron U.S.A. Inc.: (W.C. Morrison/8-22-1985)

Recommendation is to hold Sale 50 as scheduled.

- a) Chevron wants this area to be offered with a 10 year lease term using cash bonus as the bid variable and royalty fixed at 12 1/2%.

- 10) Shell Western E&P Inc.: (K.E. Hughes/9-16-1985)

Recommendation is to hold Sale 50 as scheduled.

- a) Shell has a moderate interest in this sale.
b) Shell would like this area to be offered with a 10 year lease term using cash bonus as the bid variable and a fixed royalty.
c) Tract size should be three miles by three miles (5,700 acres) or larger, where possible, given the irregular coastline.

- 11) Texaco U.S.A.: (J.N. Eke/3-10-1986)

Recommendation is to hold Sale 50 as scheduled.

- a) Industry has proven it's ability to operate in the region without adversely impacting local fish and wildlife populations or the economy, lifestyles and well-being of local communities.

- 12) U.S. Dept. of the Interior, Fish and Wildlife Service
Northern Alaska Ecological Services: (J. Nolke/4-10-1986,
J. Stroebele/9-21-1983 & 9-25-1985)

Recommends postponement of Sale 50.

- a) A Congressional decision regarding development within ANWR is pending and the State of Alaska is contesting jurisdiction of the coastal lagoon environments in the sale area.
b) The impact of exploration activities on refuge resources and subsistence lifestyles must be evaluated and stipulations should specifically address the migration of bowhead whales.

Recommended Measures:

1. No gravel removal, fill, or other exploration activities or structures permitted on barrier islands, spits, shorelines, or within the lagoon and nearshore areas.

Northern Alaska Ecological Services continued:

2. Minimum flight altitudes should be established over critical waterfowl nesting and staging areas during nesting and migration seasons.
 3. Offshore disposal of any drilling muds in shallow or low energy, nearshore areas should be prohibited.
 4. Delineation and protection of the offshore benthic macrophyte community identified in the sale area should be required.
 5. Seasonal drilling restrictions are necessary to protect migrating bowhead whales.
 6. Identification and protection of denning polar bears should be required.
 7. The overwintering arctic char and grayling in the mouth of the Canning River should be protected.
 8. Provisions should be made to avoid conflicts between oil and gas activities and subsistence activities along the coastline of Camden Bay and vicinity.
 9. Camden Bay has been the epicenter of many shallow earthquakes, stipulations should address blowout prevention and relief well construction consistent for areas with high gas potential (MMS 1984).
- 13) State of Alaska, Dept. of Labor: (J. Robinson/9-10-1985)
- a) The Department of Labor supports hiring of Alaska companies and residents for operations on oil and gas leases.
- 14) State of Alaska, Dept. of Environmental Conservation: (M.E. Wheeler/8-8-1985)
- a) The Department of Environmental Conservation has begun collecting information pertinent to the air and water quality issues and solid waste management in the sale area. Impact on bowhead whales is a concern.
- 15) State of Alaska, Office of Archaeology: (J.E. Bittner/8-9-1985, 1-31-1986)
- a) Alaska's cultural resources must be protected by the appropriate stipulations, sites are common on the barrier islands and the coastal plain but no known sites occur on submerged lands.
- 16) State of Alaska, Department of Fish and Game: (N.A. Cohen/7-14-86)
- Recommends Postponement of Sale 50
- a) Close proximity of the sale area to the ANWR may create possible adverse impacts on fish and wildlife resources in the refuge.
 - b) There may be conflicts between oil and gas operations and Kaktovik subsistence activities.
 - c) Bowhead whales and Inupiat whaling activities must be protected.

State of Alaska, Department of Fish and Game continued:

- d) To ensure that Sale 50 is in the State's best interest, the potential benefits and disadvantages of the sale should be evaluated in the preliminary analysis.

Recommended Measures:

1. Measures should be implemented to ensure continued access to subsistence resources and harvest areas.
2. Unitization plans for land within the sale area should include surface management plans for the unit that provide for fish and wildlife resources and habitats.
3. Habitat alteration and disturbances of fish and wildlife should be avoided to the maximum extent possible.
4. Gravel extraction from barrier islands and nearshore areas should be regulated.
5. Solid fill causeways should be prohibited. Noncontinuous causeways should be designed in such a way that no disruptions or alterations of nearshore water circulation patterns will occur.
6. The State's prevailing policy on seasonal drilling shall be adopted.
7. The use of non-explosive energy sources such as air guns and gas exploders should be adopted as permit requirements.
8. All refuse should be incinerated and disposed of at an upland site.
9. No restriction of public access to, or use of, the proposed sale area should be permitted as a result of oil and gas activities except for the immediate vicinity of drill sites and related structures.
10. Surface use by lessee's should be restricted to avoid conflicts with the subsistence harvests.
11. Lessee's should include in all exploration and development plans an environmental training program for all personnel.
12. A permitting and review system should be established so that adverse impacts on fish and wildlife are avoided or mitigated.
13. Activities except for mandatory maintenance should be prohibited within one mile of documented polar bear denning sites, lessees should consult with the appropriate state and federal agencies.
14. Surface entry within one-half mile of the Canning-Tamayariak delta complex should be prohibited with the exception of approved winter seismic surveys.
15. To protect birdlife aircraft should be prohibited from flight below 1500 feet and within 1 mile horizontal distance of river deltas, barrier islands, lagoons and wetlands, and within 2.5 miles of the Beaufort Sea coast.

SJR

7

Senate Special Committee on Oil and Gas

Legislation Checklist

Bill number: SJR 7

Sponsor: STURGOULEWSKI

Date referred to committee:

Further referrals:

Prior committee report:

Resumes

Back up from sponsor:

Fiscal note(s):

Agency:

Requested:

Received:

Agency:

Requested:

Received:

Position paper(s):

Agency:

Requested:

Received:

Agency:

Requested:

Received:

Sectional Analysis:

Scheduled: 2/12

Heard:

Reported out:

Items for committee packet:

To Testify:

Other Contacts:

Debbie Miller, Fbks.

see page 2

5-0180B
Bannister/
Bradley
2/12/87

Original sponsors: Sturgulewski, Fischer,
Abood, et al.

1 IN THE SENATE

BY THE SENATE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR SENATE JOINT RESOLUTION NO. 7 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 Relating to oil and gas exploration,
6 development, and production within the
7 Arctic National Wildlife Refuge, Alaska.

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

9 WHEREAS the United States Congress has reserved the right to permit
10 further oil and gas exploration, development, and production within the
11 coastal plain of the Arctic National Wildlife Refuge, Alaska; and

12 WHEREAS the oil industry, the state, and the U.S. Department of -the
13 Interior consider the coastal plain to have the highest potential for
14 discovery of very large oil and gas accumulations on the continent of North
15 America; and

16 WHEREAS a decision to permit oil and gas exploration, development, and
17 production on the coastal plain of the refuge would increase the value and
18 facilitate the development of highly promising state-owned tideland and
19 federally-owned outer-continental-shelf land offshore of the refuge; and

20 WHEREAS the facilities that are developed to transport petroleum
21 resources discovered on the coastal plain of the refuge to the Trans-Alaska
22 Pipeline System may allow marginal discoveries located between the refuge
23 and the pipeline to be developed and produced, and may prolong the economic
24 life of the pipeline; and

25 WHEREAS oil and gas exploration and development of the coastal plain
26 of the refuge and adjacent land could result in major discoveries that
27 would reduce our nation's future needs for imported oil, help balance the
28 nation's trade deficit, and significantly increase the nation's security;
29 and

1 WHEREAS the oil and gas industry and related Alaska employment have
2 been severely affected by reduced oil and gas activity, and the reduction
3 in industry investment and employment has broad implications for the Alaska
4 work force and the entire state economy; and

5 WHEREAS the development of coastal plain oil and gas resources can and
6 should be conducted by the corporations and workers of the state, who have
7 the expertise to bring the resources to market; and

8 WHEREAS 8,000,000 of the 19,000,000 acres of the refuge have already
9 been set aside as wilderness; and

10 WHEREAS the 1,500,000-acre coastal plain of the refuge comprises only
11 eight percent of the refuge, and the development of the oil and gas re-
12 serves in the refuge's coastal plain would affect an even smaller percent-
13 age of the refuge; and

14 WHEREAS the oil industry has shown at Prudhoe Bay, as well as at other
15 locations along the Arctic coastal plain, that it can safely conduct oil
16 and gas activity without adversely affecting the environment or wildlife
17 populations;

18 BE IT RESOLVED by the Alaska State Legislature that the Congress of
19 the United States is urged to open the coastal plain of the Arctic National
20 Wildlife Refuge, Alaska, to oil and gas exploration, development, and
21 production; and be it

22 FURTHER RESOLVED that that activity be conducted in a manner that
23 protects the environment and utilizes the state's work force to the maximum
24 extent possible.

25 COPIES of this resolution shall be sent to the Honorable Donald Hodel,
26 Secretary of the Department of the Interior; to the Honorable J. Bennett
27 Johnston, Chairman of the Senate Committee on Energy and Natural Resources;
28 to the Honorable Morris K. Udall, Chairman of the House Committee on
29 Interior and Insular Affairs; and to the Honorable Ted Stevens and the

1 Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S.
2 Representative, members of the Alaska delegation in Congress.
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

Original sponsors: Sturgulewski, Fischer,
Abood, et al.

1 IN THE SENATE
2 CS FOR SENATE JOINT RESOLUTION NO. 7 (Oil & Gas)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - FIRST SESSION
5 Relating to oil and gas exploration,
6 development, and production within the
7 Arctic National Wildlife Refuge, Alaska.
8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:
9 WHEREAS the United States Congress has reserved the right to permit
10 further oil and gas exploration, development, and production within the
11 coastal plain of the Arctic National Wildlife Refuge, Alaska; and
12 WHEREAS the oil industry, the state, and the U.S. Department of the
13 Interior consider the coastal plain to have the highest potential for
14 discovery of very large oil and gas accumulations on the continent of North
15 America; and
16 WHEREAS a decision to permit oil and gas exploration, development, and
17 production on the coastal plain of the refuge would increase the value and
18 facilitate the development of highly promising state-owned tideland and
19 federally-owned outer-continental-shelf land offshore of the refuge; and
20 WHEREAS the facilities that are developed to transport petroleum
21 resources discovered on the coastal plain of the refuge to the Trans-Alaska
22 Pipeline System may allow marginal discoveries located between the refuge
23 and the pipeline to be developed and produced, and may prolong the economic
24 life of the pipeline; and
25 WHEREAS oil and gas exploration and development of the coastal plain
26 of the refuge and adjacent land could result in major discoveries that
27 would reduce our nation's future needs for imported oil, help balance the
28 nation's trade deficit, and significantly increase the nation's security;
29 and

1 WHEREAS the oil and gas industry and related Alaska employment have
2 been severely affected by reduced oil and gas activity, and the reduction
3 in industry investment and employment has broad implications for the Alaska
4 work force and the entire state economy; and

5 WHEREAS the development of coastal plain oil and gas resources can and
6 should be conducted by the corporations and workers of the state, who have
7 the expertise to bring the resources to market; and

8 WHEREAS 8,000,000 of the 19,000,000 acres of the refuge have already
9 been set aside as wilderness; and

10 WHEREAS the 1,500,000-acre coastal plain of the refuge comprises only
11 eight percent of the refuge, and the development of the oil and gas re-
12 serves in the refuge's coastal plain would affect an even smaller percent-
13 age of the refuge; and

14 WHEREAS the oil industry has shown at Prudhoe Bay, as well as at other
15 locations along the Arctic coastal plain, that it can safely conduct oil
16 and gas activity without adversely affecting the environment or wildlife
17 populations;

18 BE IT RESOLVED by the Alaska State Legislature that the Congress of
19 the United States is urged to open the coastal plain of the Arctic National
20 Wildlife Refuge, Alaska, to oil and gas exploration, development, and
21 production; and be it

22 FURTHER RESOLVED that that activity be conducted in a manner that
23 protects the environment and utilizes the state's work force to the maximum
24 extent possible.

25 COPIES of this resolution shall be sent to the Honorable Donald Hodel,
26 Secretary of the Department of the Interior; to the Honorable J. Bennett
27 Johnston, Chairman of the Senate Committee on Energy and Natural Resources;
28 to the Honorable Morris K. Udall, Chairman of the House Committee on
29 Interior and Insular Affairs; and to the Honorable Ted Stevens and the

- 1 Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S.
- 2 Representative, members of the Alaska delegation in Congress.

Introduced: 1/28/87
Referred: Resources

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2

HOUSE JOINT RESOLUTION NO. 9

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

Relating to the Arctic National Wildlife

6

Refuge, Alaska.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8

WHEREAS the United States Congress has reserved the right to permit further exploration for, and development of, oil and gas within the coastal plain of the Arctic National Wildlife Refuge, Alaska; and

11

WHEREAS the U.S. Department of the Interior, the state, and the oil industry consider the coastal plain to have the highest potential for discovery of very large oil and gas accumulations on the continent of North America; and

15

WHEREAS a decision to permit oil and gas exploration, development, and production on the coastal plain would facilitate the development of highly promising state and federal tideland and submerged land; and

18

WHEREAS the facilities that are developed to transport oil and gas from the coastal plain to the Trans-Alaska Pipeline System (TAPS) may allow the development of marginal fields between the refuge and TAPS, extending the economic life of the pipeline and reducing tariffs that are expected to balloon in approximately 20 years; and

23

WHEREAS development of oil and gas in the refuge should and will be subject to strict environmental safeguards, including those protecting water, land, air, and important wildlife habitat that supports the subsistence resources used by Natives of the state and of the Yukon Territory in Canada; and

28

WHEREAS the permanent protection of large areas in the state's arctic region is assured by park, reserve, and refuge designations encompassing

1 over 35,000,000 acres of federal land in the region; and

2 WHEREAS the biological and recreational resources of the refuge are
3 very valuable, and the protection of these resources with adequate develop-
4 ment safeguards is in the interest of the nation and the state; and

5 WHEREAS the land trades proposed by the U.S. Department of the
6 Interior with private corporations would reduce or eliminate the state's
7 existing entitlement to oil and gas revenue from the refuge; and

8 WHEREAS the state is a vast and under-served state with basic educa-
9 tion, capital improvement, and public service needs, and a reduction in
10 state revenue is a serious matter for the state's residents; and

11 WHEREAS the U.S. Congress could consider reducing the state's existing
12 entitlement to oil and gas revenue within the refuge, even though the
13 reduction might violate solemn agreements between the federal government
14 and the state, discriminate against the state as compared to other states,
15 and reverse decades-long policies of the federal government regarding the
16 management of public domain lands within the states; and

17 WHEREAS development of coastal plain oil and gas resources can and
18 should be conducted by the corporations and workers of the state, who have
19 the expertise to bring the resources to market; and

20 WHEREAS the oil and gas industry and employment of the state have been
21 severely affected by reduced oil and gas activity in recent years, and the
22 reduction has broad implications for the entire state economy;

23 BE IT RESOLVED that the Alaska State Legislature adopts the following
24 consensus points regarding management of the coastal plain of the Arctic
25 National Wildlife Refuge, Alaska:

26 (1) the U.S. Congress should promptly open the coastal plain of
27 the Arctic National Wildlife Refuge, Alaska, to oil and gas exploration,
28 production, and transportation under conditions that are in the interest of
29 the nation and the state, reserving the leasing of land in the core caribou

1 calving grounds until a later time;

2 (2) the U.S. Department of the Interior should desist from
3 discussing land trades that would eliminate the state's revenue share from
4 oil and gas activity in the refuge and that could reduce the ownership
5 influence of the state and federal governments on oil and gas leasing in
6 the refuge;

7 (3) unless the state concurs, the U.S. Congress should not allow
8 measures or actions that reduce the state's entitlement to oil and gas
9 revenue from the refuge;

10 (4) the U.S. Congress should require the protection of the
11 environmental and subsistence resources of the refuge, including wildlife
12 habitat, air, and water, in the event of oil and gas development on the
13 coastal plain of the refuge; and

14 (5) the U.S. Congress, in recognition of the state's economic
15 situation and the need for long-term economic development in the state,
16 should require that the exploration and development activity in the refuge
17 be conducted by the work forces of the state; and be it

18 FURTHER RESOLVED that the state's delegation in Congress and the
19 Governor of the state should support opening the coastal plain of the
20 Arctic National Wildlife Refuge, Alaska, to oil and gas exploration, pro-
21 duction, and transportation under conditions that would advance the inter-
22 ests of the people of the state, and work with the U.S. Department of the
23 Interior to forestall proposed refuge land trades that would be inimical to
24 the interests of the state.

25 COPIES of this resolution shall be sent to the Honorable Ronald
26 Reagan, President of the United States; to the Honorable Donald Hodel,
27 Secretary of the Department of the Interior; to the Honorable Steve Cowper,
28 Governor of Alaska; to the Honorable Ted Stevens and the Honorable Frank
29 Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative,

- 1 members of the Alaska delegation in Congress; and to each of the other
- 2 members of the U.S. Congress.

Introduced: 1/22/87
Referred: Resources and
Finance

BY MARTIN, BARNES, COLLINS,
FRANK, FURNACE, HANLEY,
HUDSON, MENARD, PEARCE,
PETTYJOHN, RIEGER, SHULTZ,
TAYLOR, ZAWACKI AND MILLER

1 IN THE HOUSE

2 HOUSE JOINT RESOLUTION NO. 7

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 Relating to oil and gas exploration,
6 development, and production within the
7 Arctic National Wildlife Refuge, Alaska.

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

9 WHEREAS the Arctic National Wildlife Refuge, Alaska, includes more
10 than 19,000,000 acres of land, which amounts to approximately five percent
11 of the size of the entire state; and

12 WHEREAS the coastal plain of the Arctic National Wildlife Refuge,
13 Alaska, covers approximately eight percent of the refuge and is considered
14 to have high potential for the discovery of large quantities of oil and
15 gas; and

16 WHEREAS the U.S. Congress has reserved the right to decide if the
17 coastal plain will be opened to further oil and gas exploration, develop-
18 ment, and production; and

19 WHEREAS the petroleum industry has consistently demonstrated its
20 ability to operate under conditions similar to those found on the coastal
21 plain in a safe and responsible manner without significant adverse environ-
22 mental effects; and

23 WHEREAS the United States must develop domestic petroleum resources if
24 the United States is to prevent itself from becoming overwhelmingly depen-
25 dent on foreign petroleum sources in the 21st century; and

26 WHEREAS the value and development potential of state-owned tideland
27 and federally-owned outer continental shelf land offshore of the coastal
28 plain would be enhanced by a decision by the U.S. Congress to open the
29 coastal plain to further oil and gas exploration, development, and

1 production; and

2 WHEREAS the facilities that would be developed to transport petroleum
3 resources discovered on the coastal plain to the Trans-Alaska Pipeline
4 System might allow marginal discoveries located between the refuge and
5 Prudhoe Bay to be developed; and

6 WHEREAS the energy security of the nation depends on the development
7 of domestic oil and gas resources to replace depleted United States re-
8 serves; and

9 WHEREAS the nation will derive revenue, including portions of bonuses,
10 royalties, and rents, from oil and gas development of the coastal plain;
11 and

12 WHEREAS opening the coastal plain to further oil and gas exploration,
13 development, and production will generate increased employment and business
14 opportunities for all citizens of the state and the nation;

15 BE IT RESOLVED by the Alaska State Legislature that the Congress of
16 the United States is urged to open the coastal plain of the Arctic National
17 Wildlife Refuge, Alaska, to environmentally responsible oil and gas explo-
18 ration, development, and production.

19 COPIES of this resolution shall be sent to the Honorable George Bush,
20 Vice-President of the United States and President of the U.S. Senate; the
21 Honorable Donald P. Hodel, Secretary of the Department of the Interior; the
22 Honorable Jim Wright, Speaker of the U.S. House of Representatives; the
23 Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and
24 the Honorable Don Young, U.S. Representative, members of the Alaska delega-
25 tion in Congress; and to the presiding officer of each legislative house of
26 the other states in the United States.

STATE OF ALASKA 1987 LEGISLATIVE SESSION

FISCAL NOTE

REQUEST: _____

Bill Version : CSSJR 7 (Oil & Gas)
 Publish Date : _____

Revision Date: _____
 Title: Relating to oil & gas exploration,
development, etc.
 Sponsor Sturqulewski, Fischer, Abood, et al
 Requestor: _____

Agency Affected: Dept. of Natural Resources
 BRU: Oil and Gas
 Components: Oil and Gas

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Sharon L. Barton
 Division: Management

Phone: 465-2406
 Date: 02-12-87

Approved by Commissioner: Wm D. Gammel, Deputy
 Agency: Department of Natural Resources

Date: 2/2/87

Distribution (by preparer):

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

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of Unvied 2/10/87 - DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: RESOURCES

**FISCAL NOTE(S) ATTACHED **
IN ACCORDANCE WITH AS 24.08.035
(see below)

1/20/87
Mr. President:

DATE TURNED INTO OFFICE _____

OIL AND GAS

Committee considered SJR 7

relating to oil and gas exploration, development, and production
within the Arctic Natinal Wildlife Refuge, Alaska,

and recommended:

☒ replace with

CS

SJR 7 (O+G)

☒ same title
☐ new title

☐ attached amendment(s) and

☒ do pass

☐ do not pass

☐ no recommendation

☐ individual recommendations

☐ further referral to _____

☐ letter of intent adopted and attached

** Committee ☐ attached or ☐ adopted fiscal note(s)
☐ zero ☐ fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Paul Grub

☐ Committee Backup Attached

Chairman signature and recommendation

Littie Johnson (do pass)

5-0180B
Bannister/
Bradley
2/12/87

Original sponsors: Sturgulewski, Fischer,
Abood, et al.

1 IN THE SENATE

BY THE SENATE SPECIAL COMMITTEE
ON OIL AND GAS

2 CS FOR SENATE JOINT RESOLUTION NO. 7 (Oil & Gas)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 Relating to oil and gas exploration,
6 development, and production within the
7 Arctic National Wildlife Refuge, Alaska.

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

9 WHEREAS the United States Congress has reserved the right to permit
10 further oil and gas exploration, development, and production within the
11 coastal plain of the Arctic National Wildlife Refuge, Alaska; and

12 WHEREAS the oil industry, the state, and the U.S. Department of the
13 Interior consider the coastal plain to have the highest potential for
14 discovery of very large oil and gas accumulations on the continent of North
15 America; and

16 WHEREAS a decision to permit oil and gas exploration, development, and
17 production on the coastal plain of the refuge would increase the value and
18 facilitate the development of highly promising state-owned tideland and
19 federally-owned outer-continental-shelf land offshore of the refuge; and

20 WHEREAS the facilities that are developed to transport petroleum
21 resources discovered on the coastal plain of the refuge to the Trans-Alaska
22 Pipeline System may allow marginal discoveries located between the refuge
23 and the pipeline to be developed and produced, and may prolong the economic
24 life of the pipeline; and

25 WHEREAS oil and gas exploration and development of the coastal plain
26 of the refuge and adjacent land could result in major discoveries that
27 would reduce our nation's future needs for imported oil, help balance the
28 nation's trade deficit, and significantly increase the nation's security;
29 and

1 WHEREAS the oil and gas industry and related Alaska employment have
2 been severely affected by reduced oil and gas activity, and the reduction
3 in industry investment and employment has broad implications for the Alaska
4 work force and the entire state economy; and

5 WHEREAS the development of coastal plain oil and gas resources can and
6 should be conducted by the corporations and workers of the state, who have
7 the expertise to bring the resources to market; and

8 WHEREAS 8,000,000 of the 19,000,000 acres of the refuge have already
9 been set aside as wilderness; and

10 WHEREAS the 1,500,000-acre coastal plain of the refuge comprises only
11 eight percent of the refuge, and the development of the oil and gas re-
12 serves in the refuge's coastal plain would affect an even smaller percent-
13 age of the refuge; and

14 WHEREAS the oil industry has shown at Prudhoe Bay, as well as at other
15 locations along the Arctic coastal plain, that it can safely conduct oil
16 and gas activity without adversely affecting the environment or wildlife
17 populations;

18 BE IT RESOLVED by the Alaska State Legislature that the Congress of
19 the United States is urged to open the coastal plain of the Arctic National
20 Wildlife Refuge, Alaska, to oil and gas exploration, development, and
21 production; and be it

22 FURTHER RESOLVED that that activity be conducted in a manner that
23 protects the environment and utilizes the state's work force to the maximum
24 extent possible.

25 COPIES of this resolution shall be sent to the Honorable Donald Hodel,
26 Secretary of the Department of the Interior; to the Honorable J. Bennett
27 Johnston, Chairman of the Senate Committee on Energy and Natural Resources;
28 to the Honorable Morris K. Udall, Chairman of the House Committee on
29 Interior and Insular Affairs; and to the Honorable Ted Stevens and the

1 Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S.
2 Representative, members of the Alaska delegation in Congress.
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

STATE OF ALASKA 1987 LEGISLATIVE SESSION FEB 12 1987
FISCAL NOTE

REQUEST:

Revision Date: February 12, 1987
Title: Arctic Nat'l Wildlife
Refuge/oil and gas
Sponsor: Sturqulewski
Requestor: Fahrenkamp

Bill Version: _____
Publish Date: _____

Agency Affected: Fish and Game
BRU: _____

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	0					
TRAVEL	0					
CONTRACTUAL	0					
SUPPLIES	0					
EQUIPMENT	0					
LAND & STRUCTURES	0					
GRANTS, CLAIMS	0					
MISCELLANEOUS	0					
TOTAL OPERATING	0					

CAPITAL	0					
---------	---	--	--	--	--	--

REVENUE	0					
---------	---	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	0					
FEDERAL FUNDS	0					
OTHER	0					
TOTAL	0					

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Roland Shanks Phone: 465-4100
Division: Commissioner's Office Date: 2/12/87

Approved by Commissioner: [Signature] Date: _____
Agency: Fish and Game

Distribution (by preparer):

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

STATE OF ALASKA 1987 LEGISLATIVE SESSION

FISCAL NOTE

REQUEST: _____

Bill Version : CSSJR 7 (Oil & Gas)
 Publish Date : _____

Revision Date: _____
 Title: Relating to oil & gas exploration,
development, etc.
 Sponsor Sturgulewski, Fischer, Abood, et al
 Requestor: _____

Agency Affected: Dept. of Natural Resources
 BRU: Oil and Gas
 Components: Oil and Gas

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

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

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

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Sharon L. Barton
 Division: Management

Phone: 465-2406
 Date: 02-12-87

Approved by Commissioner: Wm D. Gammal, Deputy
 Agency: Department of Natural Resources

Date: 2/12/87

Distribution (by preparer):

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

1 IN THE SENATE

BY STURGULEWSKI, FISCHER, ABOOD
UEHLING AND KELLY

2

SENATE JOINT RESOLUTION NO. 7

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

Relating to oil and gas exploration,

6

development, and production within the

7

Arctic National Wildlife Refuge, Alaska.

8

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

9

WHEREAS the United States Congress has reserved the right to permit further oil and gas exploration, development, and production within the coastal plain of the Arctic National Wildlife Refuge, Alaska; and

12

WHEREAS the oil industry, the state, and the U.S. Department of the Interior consider the coastal plain to have the highest potential for discovery of very large oil and gas accumulations on the continent of North America; and

16

WHEREAS a decision to permit oil and gas exploration, development, and production on the coastal plain of the refuge would increase the value and facilitate the development of highly promising state-owned tideland and federally-owned outer-continental-shelf land offshore of the refuge; and

20

WHEREAS the facilities that are developed to transport petroleum resources discovered on the coastal plain of the refuge to the Trans-Alaska Pipeline System may allow marginal discoveries located between the refuge and the pipeline to be developed and produced, and may prolong the economic life of the pipeline; and

25

WHEREAS oil and gas exploration and development of the coastal plain of the refuge and adjacent land could result in major discoveries that would reduce our nation's future needs for imported oil, help balance the nation's trade deficit, and significantly increase the nation's security; and

1 WHEREAS 8,000,000 of the 19,000,000 acres of the refuge have already
2 been set aside as wilderness; and

3 WHEREAS the 1,500,000-acre coastal plain of the refuge comprises only
4 eight percent of the refuge, and the development of the oil and gas
5 reserves in the refuge's coastal plain would affect an even smaller
6 percentage of the refuge; and

7 WHEREAS the oil industry has shown at Prudhoe Bay, as well as at other
8 locations along the Arctic coastal plain, that it can safely conduct oil
9 and gas activity without adversely affecting the environment or wildlife
10 populations;

11 BE IT RESOLVED by the Alaska State Legislature that the Congress of
12 the United States is urged to open the coastal plain of the Arctic National
13 Wildlife Refuge, Alaska, to environmentally responsible oil and gas explo-
14 ration, development, and production.

15 COPIES of this resolution shall be sent to the Honorable Donald Hodel,
16 Secretary of the Department of the Interior; to the Honorable J. Bennett
17 Johnston, Chairman of the Senate Committee on Energy and Natural Resources;
18 to the Honorable Morris K. Udall, Chairman of the House Committee on
19 Interior and Insular Affairs; and to the Honorable Ted Stevens and the
20 Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S.
21 Representative, members of the Alaska delegation in Congress.

Proposed amendment to SJR 7

Page 2, line 1, insert:

WHEREAS the oil and gas industry and related Alaskan employment have been severely affected by reduced oil and gas activity, and the reduction in industry investment and employment has broad implications for the Alaskan work force and the entire state economy; and

WHEREAS the development of coastal plain oil and gas resources can and should be conducted by the corporations and workers of the state, who have the expertise to bring the resource to market; and

Page 2, line 13, delete:
environmentally responsible

Page 2, line 14, add:
and that activity be conducted in a manner that protects our environment and utilizes the Alaskan workforce to the maximum extent possible.

Introduced: 1/28/87
Referred: Resources

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2

HOUSE JOINT RESOLUTION NO. 9

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

Relating to the Arctic National Wildlife

6

Refuge, Alaska.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8

WHEREAS the United States Congress has reserved the right to permit further exploration for, and development of, oil and gas within the coastal plain of the Arctic National Wildlife Refuge, Alaska; and

10

11

WHEREAS the U.S. Department of the Interior, the state, and the oil industry consider the coastal plain to have the highest potential for discovery of very large oil and gas accumulations on the continent of North America; and

14

15

WHEREAS a decision to permit oil and gas exploration, development, and production on the coastal plain would facilitate the development of highly promising state and federal tideland and submerged land; and

17

18

WHEREAS the facilities that are developed to transport oil and gas from the coastal plain to the Trans-Alaska Pipeline System (TAPS) may allow the development of marginal fields between the refuge and TAPS, extending the economic life of the pipeline and reducing tariffs that are expected to balloon in approximately 20 years; and

22

23

WHEREAS development of oil and gas in the refuge should and will be subject to strict environmental safeguards, including those protecting water, land, air, and important wildlife habitat that supports the subsistence resources used by Natives of the state and of the Yukon Territory in Canada; and

27

28

WHEREAS the permanent protection of large areas in the state's arctic region is assured by park, reserve, and refuge designations encompassing

29

1 over 35,000,000 acres of federal land in the region; and

2 WHEREAS the biological and recreational resources of the refuge are
3 very valuable, and the protection of these resources with adequate develop-
4 ment safeguards is in the interest of the nation and the state; and

5 WHEREAS the land trades proposed by the U.S. Department of the
6 Interior with private corporations would reduce or eliminate the state's
7 existing entitlement to oil and gas revenue from the refuge; and

8 WHEREAS the state is a vast and under-served state with basic educa-
9 tion, capital improvement, and public service needs, and a reduction in
10 state revenue is a serious matter for the state's residents; and

11 WHEREAS the U.S. Congress could consider reducing the state's existing
12 entitlement to oil and gas revenue within the refuge, even though the
13 reduction might violate solemn agreements between the federal government
14 and the state, discriminate against the state as compared to other states,
15 and reverse decades-long policies of the federal government regarding the
16 management of public domain lands within the states; and

17 WHEREAS development of coastal plain oil and gas resources can and
18 should be conducted by the corporations and workers of the state, who have
19 the expertise to bring the resources to market; and

20 WHEREAS the oil and gas industry and employment of the state have been
21 severely affected by reduced oil and gas activity in recent years, and the
22 reduction has broad implications for the entire state economy;

23 BE IT RESOLVED that the Alaska State Legislature adopts the following
24 consensus points regarding management of the coastal plain of the Arctic
25 National Wildlife Refuge, Alaska:

26 (1) the U.S. Congress should promptly open the coastal plain of
27 the Arctic National Wildlife Refuge, Alaska, to oil and gas exploration,
28 production, and transportation under conditions that are in the interest of
29 the nation and the state, reserving the leasing of land in the core caribou

1 calving grounds until a later time;

2 (2) the U.S. Department of the Interior should ^{ad Congress consider The State of} desist ^{Alaska +} from ^{the state's} discussing land trades that would eliminate the state's revenue share ^{best interests} from ^{in the} oil and gas activity in the refuge and that could reduce the ownership ^{land} influence of the state and federal governments on oil and gas leasing in ^{exclusively} the refuge; ^{proposed}

3 (3) unless the state concurs, the U.S. Congress should not allow ^{land} measures or actions that reduce the state's entitlement to oil and gas ^{exclusively} revenue from the refuge; ^{proposed}

4 (4) the U.S. Congress should require the protection of the ^{land} environmental and subsistence resources of the refuge, including wildlife ^{exclusively} habitat, air, and water, in the event of oil and gas development on the ^{proposed} coastal plain of the refuge; and

5 (5) the U.S. Congress, in recognition of the state's economic ^{land} situation and the need for long-term economic development in the state, ^{exclusively} should require that the exploration and development activity in the refuge ^{proposed} be conducted by the work forces of the state; and be it

6 FURTHER RESOLVED that the state's delegation in Congress and the ^{land} Governor of the state should support opening the coastal plain of the ^{exclusively} Arctic National Wildlife Refuge, Alaska, to oil and gas exploration, pro- ^{proposed} duction, and transportation under conditions that would advance the inter-
7 ests of the people of the state, and work with the U.S. Department of the
8 Interior to forestall proposed refuge land trades that would be inimical to
9 the interests of the state.

10 COPIES of this resolution shall be sent to the Honorable Ronald
11 Reagan, President of the United States; to the Honorable Donald Hodel,
12 Secretary of the Department of the Interior; to the Honorable Steve Cowper,
13 Governor of Alaska; to the Honorable Ted Stevens and the Honorable Frank
14 Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative,

- 1 members of the Alaska delegation in Congress; and to each of the other
- 2 members of the U.S. Congress.

Alaska State Legislature

FEB 10 1987

PRESIDENT
907-465-3755

JAN FAIKS
POST OFFICE BOX V
JUNEAU, ALASKA 99811

Senate

February 7, 1987

MEMORANDUM

TO: Senator Bettye Fahrenkamp
Chairman, Special Committee on Oil and Gas

FROM: Senator Jan Faiks *Jan Faiks*
President of the Senate

SUBJECT: ANWR Resolutions

In talking with the oil industry during the last few days I have found that they feel it is important for the Legislature to pass a resolution in full support of oil and gas exploration and development in the Coastal Plain as soon as possible. Their impression based on discussions with the Department of the Interior and the Fish and Wildlife Service is that a resolution passed within the next 30 days will have a significant impact, even though it will not be included in the public comments on the 1002(h) report.

It is also extremely important that the House and Senate pass identical resolutions to show the unity of the Alaska Legislature on this issue. Hopefully your meetings with the sponsors of the House and Senate resolutions will iron out the differences between SJR 7, HJR 7 and HJR 9.

If I can be of any assistance in this effort please let me know.

OUT OF SESSION

6060 YUKON DRIVE ANCHORAGE, ALASKA 99516 907-274-6611

Alaska State Legislature



PRESIDENT
907-465-3755

JAN FAIKS
POST OFFICE BOX V
JUNEAU, ALASKA 99811

Senate

January 31, 1987

MEMORANDUM

TO: Senator Bettye Fahrenkamp, Chairman
Senate Special Committee on Oil and Gas

FROM: Senator Jan Faiks
President of the Senate *Jan Faiks*

SUBJECT: Senate Joint Resolution 7
Relating to oil and gas exploration, develop-
ment, and production within the Arctic
National Wildlife Refuge

SJR 7 was referred to the Special Committee on Oil and Gas on January 26th. Since then, Governor Cowper has joined with the resolution's many sponsors and expressed the importance of Alaska's combined effort to open up ANWR for development of the coastal plain's oil and gas potential.

Because of the issue's importance, I am certain you will agree that the Senate's efforts reflect its timeliness and urgency. As a result, I would greatly appreciate your committee's consideration of SJR 7 prior to Friday, February 6th so that the resolution can be calendared to come before the full Senate as soon as is possible.

Thank you.

cc: Senator Arliss Sturgulewski

OUT OF SESSION

6060 YUKON DRIVE ANCHORAGE, ALASKA 99516 907-274-6611



SJR

8

Senate Special Committee on Oil and Gas

Legislation Checklist

Bill number: SJR 8 Sponsor: Josephson
Date referred to committee: Further referrals: Resources,
Prior committee report: Finance
Back up from sponsor:
Fiscal note(s):
Agency: DNR Requested: Received:
Agency: DOR Requested: Received:
Position paper(s):
Agency: DNR Requested: Received:
Agency: Requested: Received:
Sectional Analysis:
Scheduled: 2/26 Heard: Reported out:
Items for committee packet:

To Testify:

Jim Eason, DNR
Ed Phillips
Scott Goldsmith, ISER 786-7710
Bob Anderson, Union Oil 263-7600
Cliff Gresh 272-6474
Other Contacts:

Senator Boren, OK, S 302 Oil Input Tax
Murkowski. S 460 - Murkowski Diner
(Tom Roberts)

Gov. Clements, Texas
Dillard Hamett

Tim Dowd, Chair IOCC
from OK

Bar Ward
Palmer
Dixon



Zane Barnes severe environment semisubmersible will go to work for Shell Oil Co. in the Gulf of Mexico in March under a multiyear contract. It is 370 ft long, 225 ft wide, and 170 ft high to the drilling floor. Derrick height adds 205 ft.

New generation rig to drill in gulf

Reading & Bates Corp. plans to place in service in March one of the world's largest semisubmersibles.

The Zane Barnes, a Trendsetter class rig, is capable of drilling to

30,000 ft in as much as 6,000 ft of water under normal weather conditions. It is designed to operate safely in such areas as the North Sea and off Alaska in severe weather.

The rig's mooring system makes it 35% more stable than earlier semisubmersibles, Reading & Bates said. A combined wire rope and chain system allows the rig to be anchored in as much as 4,921 ft of water.

A fully computerized rig management system checks and controls ballast, bilge, fuel, materials/equipment, water and electricity supply, fire, engine, and drilling equipment, and hull positioning. Variable deck load is 6,000 long tons, and the rig can accommodate a crew up to 122 persons.

Ishikawajima-Harima Heavy Industries Co. Ltd., Tokyo, constructed the semisubmersible in 19 months at its Aichi works. Designer is Friede & Goldman Ltd., New Orleans.

The rig is under tow by tugboat around the Cape of Good Hope. It is scheduled to arrive in the Gulf of Mexico next month.

The rig, with a gross weight of 19,928 long tons, consists of the main deck, two lower hulls, and five columns. A large diameter center caisson with buoyancy enables safe drilling work without being affected by floe.

The center caisson, 72 ft in diameter, also contains storage for riser pipes between its inner and outer shells. A moonpool within the inner shell facilitates handling of the riser and drill pipe. The unique shape of the lower hull improves hull oscillation characteristics against high waves.

NPC outlines policy options to curb oil imports

The recent increase in oil prices is not enough to reduce the likelihood that U.S. dependence on imports will continue to rise at alarming rates, says a draft report approved last week by the National Petroleum Council's committee on U.S. oil and gas outlook.

To boost drilling, says the report, industry needs more economic incentives, including oil prices above the current level of about \$18/bbl.

"Positive government energy policies that encourage, rather than discourage, domestic petroleum exploration and production will lead to a more stable, secure energy future for the U.S.," it reads.

"Tax incentives, decontrol of natural gas prices and markets, and opening unexplored federal lands are a few examples of such policies."

The draft final report, subject to considerable change before its submission to Energy Sec. John S. Herrington, is to be ready for presentation to the full NPC next month. An inter-

im report to Herrington was prepared by the committee last year (OGJ, Sept. 29, 1986, p. 36).

A dozen options. The committee report outlines advantages and disadvantages of 12 government policy options to reduce U.S. dependence on oil imports.

The policy options are:

- Greater access to federal lands and improve the lease terms.

- Removal of tax disincentives and use of positive incentives to maintain existing production and stimulate exploration/development.

- Stabilization of wellhead prices through the use of import fees at a level that will reduce consumption and stimulate production.

- Promotion of research and development in secondary and tertiary recovery methods and alternate fuels production technologies.

- Decontrol of gas prices and markets through repeal of Natural Gas Policy Act price controls and the Fuel Use Act.

- Reduction of demand by increasing oil prices through consumption and excise taxes.

- Creation of incentives and mandates to continue energy conservation efforts.

- Greater use of alternate fuels.

- Diversification of supply sources to reduce the likelihood that a disruption of a single source could precipitate a crisis.

- Implementation of diplomatic actions that could increase the interdependence of U.S. and Middle East exporting countries to make oil supply continuity beneficial to all parties.

- Increasing the strategic petroleum reserves to enhance the ability to limit the effects of supply shortages and price increases.

- Implementation of fiscal and monetary policies that could be developed to mitigate the effects of price shocks.

Although not specifically developed, another option is to guarantee a minimum oil price to producers.

NSC head to seek energy policy

By **ANDREW MANGAN**
The Associated Press

WASHINGTON — National security adviser Frank Carlucci views the rising level of imported oil as a threat to national security and will urge President Reagan to create a national energy policy to deal with the problem, a congressman said Wednesday.

Rep. Beau Boulter, R-Texas, said Carlucci told him and two other congressmen last week that he will recommend the president issue a national security decision directive to examine ways to deal with the problem, including the imposition of an oil import fee.

"What we were told by Carlucci is that he would see to it that there is a formal order signed by the president directing the NSC (National Security Council) to develop proposals and a national energy policy to deal with the national security threat posed by the high levels of imported oil," Boulter said.

Such an action would be the first formal recognition that the White House views rising imports as a serious threat to the nation's security.

Last week, Energy Secretary John Herrington told Boulter and Texas Gov. Bill Clements he was reviewing an 800-page Department of Energy draft report outlining options available to stem the flow of low-cost foreign oil into the United States.

"The indication is that Carlucci will start to work on the issue right after the DOE study is completed," Boulter said. The study is 95 percent complete, he said.

In his meeting with Carlucci, which was also attended by Reps. Mickey Edwards, R-Okla., and Dick Cheney, R-Wyo., Boulter said the national security adviser did not say whether he favored an oil import fee, tax credits or any other specific solution.

"We all pushed for an import fee by executive order. What he did say is that he is awash with studies and that now is the time to take action."

The level of Persian Gulf oil being imported into the United States grew from 6 percent of total consumption in 1985 to 15 percent last year, the highest percentage since 1981.



SJR 8

Anchorage Daily News

TI

3/5/87

Anchorage Daily News



Chairman Frank Carlucci

United Press International

CUR circle

- The prob individuals in
- The prob reasonably dif
- The prob reasonable tim
- The soluti organization.

In these eco challenged to ployee probl guidelines, can tion. Doing no opportunity los of dozens of alternative.

☐ Lynne Curry is management train

**THIS
DASN'T GRAB
OUR INTEREST,
IE TAX MAN
LL.**



Tesoro Petroleum Corporation

Low-Priced Oil or National Security? An Import-Fee Alternative

**Presented to Senator Richard G. Lugar, Chairman
Foreign Relations Committee
of the United States Senate
Washington, D.C.**

**by
Robert V. West, Jr.
Chairman,
Tesoro Petroleum Corporation**

October 2, 1986

Low-Priced Oil or National Security? An Import-Fee Alternative

Presented to Senator Richard G. Lugar, Chairman
Foreign Relations Committee
of the United States Senate
Washington, D.C.

by
Robert V. West, Jr.
Chairman,
Tesoro Petroleum Corporation

October 2, 1986

Low-Priced Oil or National Security? An Import-Fee Alternative

Remarks by Robert V. West, Jr.

Senator Lugar:

Thank you for affording me the opportunity to present my views to you and the Senate Foreign Relations Committee on the threat to U.S. national security of low-priced oil conditions now prevailing globally and to suggest a new approach to deal with that threat.

The only approach heretofore suggested has been one of a sliding-scale oil-import fee, whose purpose would be to protect economically the domestic oil industry and to bring U.S. crude oil prices back to a general level of \$20 per barrel or slightly more. It is perceived that a domestic crude oil price of this level could currently support an ongoing, although just barely viable, domestic petroleum industry.

The concept of an oil-import fee is so controversial that, regardless of its merits, it is unlikely that it would ever be adopted. The U.S. Administration has taken a strong stance against it. Certain U.S. industries who export their products into world markets and depend upon competitive petroleum prices for their survival oppose it. Even the petroleum industry itself has a divided attitude toward it. I believe that, because of the opposition of so many groups toward it and without extensive loopholes in it, the concept of an import fee won't be accepted, and that a different approach must be followed.

To have the national-security benefits inherent in a truly viable domestic petroleum industry, U.S. consumers must be willing to pay the slightly higher costs for petroleum products that higher crude oil prices would bring. Admittedly, educating consumers to the relationship between higher petroleum-product prices and U.S. national security will be difficult. Persuading the U.S. government that present low oil prices represent a threat to U.S. national security may be equally difficult.

Average consumers are gratified with low gasoline prices that have prevailed during the recent free-fall in world crude oil prices. They are comfortable with the fact that the gasoline they are buying costs only 70¢ to 80¢ per gallon, compared with prices double that during the last several years. Not long ago the President made a statement to the effect that it was good, for a change, to see the number of gallons on a gasoline pump meter go up faster than the number of

dollars as a consumer's tank was being filled. This emphasis on low petroleum prices represents an unrealistic, short-sighted attitude toward the future security of America.

Recently it has become popular in the press, in Wall Street and in economic circles to refer to crude oil and petroleum products as "just other commodities" and to think of them in that manner. The thrust of my views is to point out that this thinking is erroneous. Petroleum differs significantly from conventional commodities. It should not be compared in thinking or in treatment to soybeans, sugar or other pure commodities.

If petroleum has some commodity characteristics, it should be differentiated as a strategic substance vitally important to America's national security. Since the free-fall began in world oil prices 10 months ago, this fact has largely been ignored by the U.S. government. The Administration's emphasis has been on "freeing up the markets" - whatever that may mean - and letting the chips fall where they may with respect to the viability or demise of the U.S. petroleum industry.

The domestic availability of petroleum products in times of crisis is vital to America's security. In times of embargoes or other arbitrary petroleum cutoffs by foreign producers, the availability of a reasonable level of domestic supplies will be imperative. Our relatively small Strategic Petroleum Reserve will not begin to satisfy our potential needs.

Petroleum is not just another commodity, whose price should be permitted to seek its own level in competition with the global glut and the vast supply/demand imbalances now existing. Instead it is a substance with vital strategic importance to America. It must be recognized as such.

This recognition should not be partisan. Neither should it be regional. Instead it must be objective and far-reaching.

During the 130-year history of the petroleum industry in the U.S., the industry has been characterized by sharp swings in supply/demand balances. Unfortunately, this circumstance is inherent to the industry.

In the past, because petroleum was always recognized as a strategic substance, the U.S. government or state governments within our country were unwilling for very long to leave petroleum to the mercies of free commodity markets. Invariably during the history of the domestic industry there has been intervention to smooth out the peaks and valleys in supplies and prices of U.S. oil production. If

government intervention in domestic petroleum pricing and the defense of the viability of the U.S. petroleum industry do not recur again now, this lack of involvement will represent a wide departure from past U.S. practices.

In the early 1930's, with the discovery of the giant East Texas oilfield, the state of Texas utilized the oil and gas division of its then-existent Texas Railroad Commission to prorate the supply of Texas crude oil and to keep it in balance with state, national and international demands. In the process crude oil prices maintained a level that would permit ongoing exploration, development and production.

Before the imposition of Texas state proration rules for the East Texas oilfield, the price of crude oil in Texas dropped to as low as 10¢ per barrel. Even with the then-temporary glut of petroleum associated with that vast new field, that price level would not have permitted the maintenance of a viable domestic petroleum industry. At that time there was no threat to the U.S.'s being flooded with low-priced foreign oil or to our national security's being jeopardized by that flood - both as there are today.

Even so, the state of Texas took a bold step and instituted the concept of statewide oil proration. Supply was put back in balance with demand. Oil prices stabilized at a reasonable level.

Most other U.S. oil-producing states instituted their own regulatory and proration practices, generally following the pattern of Texas. As a result, for approximately 40 years, ending with the nationalization waves of Mid-East and South American countries in the 1960's and early 1970's, crude oil supply/demand balancing was achieved by proration of U.S. oil-producing states, by production restraints of international oil companies operating abroad or, later, by import controls in the U.S. and Canada.

In the process crude oil prices stabilized. These actions were not perceived as price-fixing or cartel-like by government officials and economists of those days. Rather they were perceived as necessary steps to preserve the viability of the U.S. domestic petroleum industry.

In the early 1980's the OPEC oil-producing nations attempted to restore supply/demand balances and price stability, which were largely destroyed by pricing and production practices - at unrealistically high price levels - by OPEC and non-OPEC nations alike during the past decade. However, petroleum consumers of the world came to expect that OPEC nations in general, and Saudi Arabia

in particular, would absorb all the excesses of global over-supply, and that these nations alone would subject themselves to self-imposed proration, while other oil-producing nations of the world produced in wide-open fashion, taking all of the global markets, internal and external, that their production capacities would permit.

Largely this attitude of "let OPEC prorate" is the result of consumer hostility toward OPEC nations. This hostility has its origin in the nationalization by OPEC countries of non-OPEC petroleum interests, including those of U.S. companies. Further it has its origins in the Arab oil embargo of 1973 and 1974 and in the sharp crude-oil price increases associated with that embargo. Also, it has its origin in the now seemingly false oil shortage resulting from the Iranian revolution in 1979 and the further sharp rises in petroleum prices associated with that revolution.

Thus world consumers in general, and those in the U.S. in particular, have little or no sympathy for OPEC and expect OPEC nations to bear the brunt of all proration necessary to maintain petroleum supply/demand balances under today's global-glut circumstances. Unfortunately this thinking is more emotional than practical. Actions of key OPEC producers since December 1985 and January 1986 prove that point.

The U.S. should put aside its emotional attitude toward OPEC and view realistically the situation as it is today. The U.S. is faced with the likelihood of losing the viability of its domestic petroleum industry and the paralyzing national security threat which that loss would represent.

I am not speaking as an advocate of OPEC, of any of its individual member states or of its production/pricing strategies. Instead I am trying to view the current global oil glut, and the solution to that glut, dispassionately and objectively.

I am an American, and I am vitally concerned about America's national security. I am speaking out because I am keenly aware of the devastating threat to that security, and I am trying to communicate my urgent concerns to you and other responsible U.S. government officials.

I look back to the early 1930's and to the imposition by the state of Texas of bold, far-reaching proration controls resulting from the oil surpluses of that day. Texas stepped forward, creatively and dispassionately, and mandated proration for all oil producers in the state. There was no expectation that one producer would bear the brunt of bringing supply and demand back into balance. Instead the

requirement was that all producers would be subjected to mandatory proration, on a predetermined objective basis.

I believe that a global proration approach similar to this is the only realistic solution to today's ominous oil supply/demand imbalances, and I believe that some system of worldwide proration must be adopted to deal with that imbalance. It is not realistic to expect that OPEC nations are for long going to permit non-OPEC producers to flow their wells at capacity, while some OPEC members prorate themselves to only 30% or 40% of their capacities.

Circumstances have shown that this condition is not acceptable to OPEC, and that the strategy of OPEC to continue it has changed completely. Whether countries such as the U.S. and the U.K. like it or not, OPEC nations feel that certain shares of global oil markets should be available to them, and they intend to take those shares by whatever means necessary.

The stark reality is that there has been only a temporary arrest in the worldwide price erosion of crude oil. This arrest may be short-lived, and global prices may free-fall again. OPEC nations in the aggregate will not be content for long with the nominal total production of 16 million barrels per day existing today.

Unfortunately for the U.S., most of its crude oil production is in the high-cost category, and its potential additional reserves - as yet undiscovered and unproven - will require huge sums for exploration and development. At today's levels, even with the small recent price recoveries, crude oil prices in the U.S. are far too low to encourage meaningful exploration and development.

This fact is borne out vividly by the decline in U.S. drilling rig activity, which reached an all-time low of 663 rigs during July of this year, and which is only about 750 now. By comparison, the rig count exceeded 4,500 just a few years ago. It should be at least 3,000 to sustain the viability of the U.S. domestic petroleum industry.

The U.S. is the most vulnerable major oil producer in the world. It has been producing oil for more than a century. It is the world's oldest oil-producing nation and has been highly explored. It is the home of the world's most costly oil production and the nation with the world's lowest reserve/life production ratio. It is vital for the U.S. to do something about this situation to protect itself and its own self-interest.

Right now many small U.S. oil explorers and producers are facing bankruptcy. Oil company employees are being terminated in droves. Oil-service companies have curtailed their activities dramatically, and

the personnel and business infrastructures of that industry segment are being lost. Major companies have sharply curtailed U.S. exploration budgets, mothballed most of their exploration and development rigs on the North Slope of Alaska and nearly ceased exploration in the Gulf of Mexico and elsewhere offshore.

The U.S. banking industry, with large loans to U.S. oil producers and to Latin American oil-producing nations, faces a difficult future. Current low oil prices are a serious threat to the Mexican economy, to Mexico's ability to repay debts to the U.S. banking system and to its internal political stability. The threat to the U.S. of social unrest in Mexico, attributable to low oil prices, is present and real.

The time is here - in fact, it is long overdue - for all of us to recognize that a truly viable U.S. petroleum industry is vital to America's national security. The time is here also for the U.S. and the world at large to face up to the fact that OPEC nations are not forever going to absorb all the world's proration disciplines necessary to maintain crude oil supply/demand balances and to permit other oil-producing countries, including the U.S., to retain viable domestic petroleum industries.

This brings me to my recommendation. Operating in conjunction with OPEC, the U.S. and other non-OPEC oil-producing countries of the world should create a modern-day, worldwide proration mechanism for crude oil production. Production should be shared in some equitable manner to maintain crude oil supply/demand balances and to permit prices to stabilize at levels acceptable both to oil-producing nations and to consumers, taking their contrasting desires into account.

Admittedly implementation of this recommendation would be a vast undertaking, surrounded by significant political and organizational problems. In spite of those difficulties, I believe the concept has fundamental merit, and that its implementation should be attempted. The U.S. must take the lead in such an effort. Doing so would put the global prestige of the United States behind the concept and give it substance and credibility.

Under a worldwide crude-oil proration mechanism, a price figure of at least \$22 per barrel should represent a target level now, gradually increasing over time, based on future conditions. OPEC has given indications that in the near term this level would be acceptable to it. Its more responsible producers recognize that earlier prices of \$30 per barrel or more are unrealistic in today's environment.

With respect to non-OPEC producers, and to the U.S. in particular, a crude oil price of \$22 per barrel is one that the industry could live with now and remain barely viable. That level would not represent a bonanza for U.S. producers and would not stimulate the necessary exploration and development drilling that the country desperately needs for long-term national-security purposes.

However, at present it should be high enough to provide temporary viability, and hopefully still low enough to be politically acceptable to consumers and the U.S. Administration. At a price of \$22 per barrel, gasoline in the U.S. would cost approximately \$1.05 to \$1.15 per gallon, compared to the prevailing level of 70¢ to 80¢ per gallon, and to the level 10 months or so ago of \$1.40 to \$1.50 per gallon.

With respect to degrees of non-OPEC proration, I would recommend levels substantially less severe than those that I mentioned earlier which certain OPEC producers are experiencing - i.e., 30% to 40% of capacity. The situations of those producers are different from those of the U.S. They do not have large internal consumption of their own, and in general their national-security requirements are minimal - in many cases because the U.S. provides security umbrellas over them.

Accordingly, I would not suggest that the U.S. - or the U.K., Norway, Egypt, Canada or Mexico - enter into worldwide proration arrangements which would prorate all countries evenly in relation to their potential producing capacities. Instead I would suggest that the U.S. and other non-OPEC producers agree to a proration of their individual producing amounts of approximately 10% each or to a level of 90% of recent production capacities. It is worthwhile to note that on September 10, 1986 Norway voluntarily stated its intention to cut its production 10% to help alleviate world supply/demand imbalances.

If the necessary calculations are made, it can be shown that if all non-OPEC producers cut their production by 10%, OPEC in the aggregate could be allocated 18 to 19 million barrels per day of crude oil production now, compared to the 16 million barrels per day to which it recently agreed to cut back during September/October 1986. In the process of these 10% proration initiatives, hopefully the global price of crude oil would rise to about \$22 per barrel. With an aggregate production of 18 to 19 million barrels per day, and with a current price of \$22 per barrel, again hopefully OPEC nations individually and collectively would be satisfied with their

petroleum-export revenues and would honor the supply/demand agreements.

If the U.S. were voluntarily to cut its production by 10%, that cut would represent an aggregate decrease of about 900,000 barrels per day from the 9.0 million barrels per day level which the U.S. was producing 9 or 10 months ago. However, associated with that decrease would be a price increase, a degree of restored viability to the domestic petroleum industry and a much greater level of national-security comfort.

Numerous forecasts indicate that, without some solution for the problems of the U.S. domestic petroleum industry, America's producing level will erode to 6.0 million barrels per day or so in the next few years. This erosion will occur as a result of the shut-in of stripper and other marginal wells, normal production declines of non-marginal wells and the lack of economic incentive for additional exploration and drilling. Accordingly, the U.S. as a nation would be far better off under the suggested global proration program than under the continuation of existing circumstances.

Many of the necessary agencies to implement a global proration program now exist. In this regard I refer to the International Energy Agency, the U.S. Department of Energy, the state regulatory bodies in the individual producing states of the U.S. and to OPEC. Even though the state regulatory bodies no longer have influence on global supplies, they still exist and function. They could be utilized by the U.S. government to implement a global proration mechanism, on an individual state-by-state basis or in conjunction with the U.S. Department of Energy.

Economists might say that this recommended global proration approach just represents an extension of cartel-like conditions to the petroleum industry worldwide, and that it contradicts free-market principles. I suggest that if this is the perception, it would not be unique to the petroleum industry. What this approach would recognize is that petroleum markets are truly international, not regional or national.

The mandatory limited access of Japanese automobiles to the U.S. represents an indirectly comparable situation. Under this mandatory limit the U.S. recognizes that the automobile market is an international one. With the limit, the U.S. is forcing proration of Japanese automobile manufacture and at the same time imposing proration on U.S. automobile manufacturers by permitting the importation of Japanese and other foreign automobiles in the first place.

With the weight of its worldwide prestige, the U.S. must be the leader for a global crude-oil-proration mechanism to succeed. By leading, it would demonstrate to the world that the U.S. recognizes its own national-security needs for a viable domestic petroleum industry but at the same time recognizes the imbalances and inequities that OPEC nations feel with respect to their global market shares.

If the U.S. takes the lead with sufficient resolve, demonstrating its understanding, objectivity and fairness, there is reasonable hope that in addition to Norway, the U.K. and other non-OPEC producers would adopt similar attitudes. Too there is hope that major OPEC producers would welcome those leads and work conscientiously on a global basis to alleviate supply/demand imbalances.

High-level conversations on global proration should begin immediately in order that an early determination may be made whether or not the approach has a chance of political success. The U.S. government must emerge from its role of doing nothing to protect the viability of the domestic petroleum industry. It needs to understand the future national-security implications of that do-nothing policy. It needs to step forward into a role of pro-active leadership and do something to stabilize volatile, chaotic world oil markets.

The moment for action is here, and the time is short. With this thought in mind I strongly recommend the approach I have outlined for your consideration and that of your colleagues. Thank you again for affording me the opportunity to present my views to you and to the U.S. Senate Foreign Relations Committee.

October 2, 1986





International Gas Technology HIGHLIGHTS

Volume XVII

October 5, 1987

No. 20

IEA ENERGY USE WAS ALMOST UNCHANGED IN 1986

The International Energy Agency's 1986 review of the energy policies and programs of its 21 member countries reports that their total primary energy requirements (TPER) rose only 0.4% to 3531.5 million tons of oil equivalent (about 140 quadrillion Btu) in 1986.

In Europe, TPER went up 1.3% to 41 quads while in the Pacific region requirements grew 1.2% to 19 quads. However, North American energy demand declined 0.3% to 71 quads. Oil demand increased 2.7% in the entire IEA to about 60 quads, including a 3.3% increase in the U.S. Oil imports jumped 11.8% to 31 quads, including a 23.1% rise to 11 quads in the U.S.

The IEA forecasts that its members' total primary energy requirements will increase from 3881.2 million tons of oil equivalent in 1985 (151 quadrillion Btu) to 4652-5083 million toe (185-202 quads) by the year 2000. The lower projections assume that world oil prices stay at the \$28-\$30/bbl level of 1985; the higher forecast assumes prices fluctuate between \$15 and \$20/bbl (\$17.50 average) for the rest of the century. The economic growth rate is assumed to average 3%/year through 1990 and 2.5%/year from 1990 to 2000.

As the table shows, oil's share of TPER would remain around 42% in the \$17.50/bbl scenario and would be lower if prices were higher. The share of gas is also inversely linked to the price of oil, though not to the same extent. Solid fuels, nuclear, and renewable resources would have higher

shares when oil prices are high and vice versa.

Oil consumption in the 24 countries of the Organization for Economic Cooperation and Development is projected to grow from 34 million bbl/day in 1985 to 37-39 million bbl/day in 1990 and then remain at this level until the end of the century. Domestic production is expected to decline from 16.9 million bbl/day in 1985 to 15.5-16.5 million bbl in 1990 and 13.5-14.5 million bbl/day by 2000. Total world petroleum consumption, excluding the centrally planned economies, is estimated to rise from 45.6 million to 50.4-52.6 million bbl/day in 1990 and 53.2-56.8 million bbl/day by the year 2000. OPEC's production, 17.2

million bbl/day in 1987, will rise to 21.7-24.2 million bbl in 1990 and to 25.5-29.5 million bbl/day by 2000, according to the IEA.

The IEA report recommends that, given the prospects for tightening energy markets in the 1990s, attention should be given to: the development of alternatives to oil, especially for electricity generation; a review and possible abolition of remaining price controls; the application of new technologies for energy production and use; government review of incentives for conservation; a removal of barriers to international trade in energy; and resistance against such protectionist barriers as import fees.

Long-Term OECD
Energy and Oil Demand Growth

CASE:	\$30 Reference		\$17.50 in 1989 to \$30 in 1999		\$17.5 Constant	
	1985-90	90-2000	1985-90	90-2000	1985-90	90-2000
Demand Growth (per cent per annum)						
TPER	1.4	1.3	2.5	0.8	2.6	1.6
Oil	0.6	0.3	3	-	3.2	1.1
	1985	2000	2000		2000	
TPER (Mtoe)	3 811.2 ¹	4 652	4 685		5 083	
Market Share (per cent of TPER)						
Oil	42.5	36	38		42	
Gas	19	17	18		17	
Solid Fuels	24.5	28	27		25	
Nuclear	7	10	9		8.5	
Hydro/Renewables	7	9	8		7.5	

1. Note that this figure includes bunker oil demand as well as TPER for OECD Member countries who are not also members of the IEA (Finland, France, Iceland). It therefore differs from the figure for TPER in 1985 shown in Appendix D.

Source: IEA Secretariat

October 5, 1987

JAPAN PASSES U.S. IN GOVERNMENT SPENDING ON ENERGY RD&D

According to the International Energy Agency's 1986 review of the energy policies and programs of its 21 member countries, for the first time Japan surpassed the United States in total government expenditures on energy research, development, and demonstration. As the table shows, last year Japan spent \$2.31 billion on energy RD&D, up 2.4% from 1985, compared with \$2.26 billion for the U.S., a 7.0% decline. (All figures are in 1986 U.S. dollars.) U.S. RD&D funding peaked at \$5.30 billion in 1979. Overall, IEA RD&D expenditures fell 6.3% to \$7.13 billion — down from the \$10.21 billion peak in 1979.

Italy came third with \$761 million, a 1.2% rise, followed by West Germany \$566 million (a 30% drop), the United Kingdom \$378 million (-13%), Canada \$336 million (-7.4%), and The Netherlands \$161 million (up 3.6%).

The area with the largest budget remained conventional nuclear, where overall IEA spending totaled \$2.69 billion in 1986, down 3.3% from 1985. Japan was the leader with \$1.11 billion, followed by the U.S., \$753 million and Italy, \$324 million. Advanced nuclear RD&D received \$1.82 billion in funding, with Japan spending \$661 million, the U.S. \$381 million and Italy \$334 million.

1986 Government Expenditure on Energy RD&D Per Unit of Gross Domestic Product

(including nuclear)	
Country	RD&D/GDP (per mille) 1986(1981)
Italy	1.99(1.52)
Japan	1.73(1.39)
Netherlands	1.29(1.00)
Canada	0.98(1.05)
Belgium	0.94(1.02)
Germany	0.91(1.43)
United Kingdom	0.85(1.05)
Sweden	0.79(1.28)
Switzerland	0.75(0.54)
USA	0.59(1.31)
Norway	0.51(0.60)
Greece	0.46(0.79)
Spain	0.41(0.37)
Denmark	0.25(0.48)
New Zealand	0.16(0.70)
Turkey	0.05(0.03)
Australia	n.a.(0.52)
Austria	n.a.(0.38)
Ireland	n.a.(0.43)
Portugal	n.a.(0.22)

IEA Government Energy RD&D Budgets in 1986 United States Dollars¹
(Millions)

	1975	1977	1979	1980	1981	1982	1983	1984	1985	1986	1987
Canada	221.9	248.8	302.0	282.2	332.4	343.5	393.7	447.1	363.6	336.3	1,389
United States	2,317.0	4,187.0	5,302.8	5,229.2	4,023.7	3,106.3	2,916.2	2,433.0	2,432.0	2,261.3	1,000
Australia	n.a.	30.4	49.3	63.4	72.1	n.a.	83.6	n.a.	n.a.	n.a.	1,496
Japan	820.8	1,018.9	1,376.7	1,987.2	2,114.5	2,116.9	2,127.9	2,146.6	2,256.7	2,310.9	168,500
New Zealand	4.5	4.5	7.6	12.9	11.0	9.9	9.3	11.1	10.3	3.9	1,917
Austria	8.4	26.7	28.2	30.5	28.4	31.0	29.3	32.0	29.4	n.a.	15,270
Belgium	144.0	116.3	97.5	121.6	105.6	97.2	87.8	93.3	85.8	74.1	44,690
Denmark	13.8	22.8	36.8	27.0	17.7	17.0	16.6	15.1	14.1	14.4	8,089
Germany	817.5	878.3	1,032.1	1,049.9	1,130.8	1,442.4	848.4	847.3	804.4	565.8	2,172
Greece	n.a.	1.1	5.3	37.3	31.3	7.2	6.6	8.4	11.1	13.3	139,480
Ireland	2.0	3.3	6.7	8.1	9.5	8.0	5.1	2.0	2.9	n.a.	747
Italy	n.a.	277.9	383.7	397.7	677.1	520.5	609.5	605.2	751.8	761.0	1,491,000
Netherlands	96.4	141.3	153.2	155.6	160.7	132.8	132.5	114.0	155.4	161.1	2,450
Norway	22.9	31.8	44.7	41.0	35.0	31.1	25.8	24.6	24.5	28.9	7,392
Portugal	n.a.	n.a.	n.a.	5.0	3.9	3.9	4.9	7.8	7.3	n.a.	148,170
Spain	82.4	52.3	74.5	87.1	82.1	75.1	171.2	176.4	53.0	70.3	139,970
Sweden	70.7	80.3	133.1	127.5	177.1	141.8	127.0	112.9	104.1	79.4	7,124
Switzerland	20.0	43.3	67.6	71.9	67.5	63.8	65.7	64.5	69.2	69.6	1,798
Turkey	n.a.	n.a.	n.a.	2.8	1.2	1.9	2.8	2.4	2.3	2.5	669,000
United Kingdom	457.8	393.1	476.0	474.6	507.6	461.5	492.2	456.9	435.1	378.4	682
IEA Total	5,080.2	7,555.7	9,577.6	10,212.4	9,589.2	8,611.8	8,155.7	7,800.6	7,513.4	7,133.3	
EC	n.a.	161.2	218.4	335.7	235.9	426.2	458.2	389.3	492.0	468.7	1,025

¹ Values in Table 3 have been derived from those presented in Table C2 (government energy RD&D budgets expressed in 1986 national currencies), by using 1986 average exchange rates to the United States dollar calculated from those provided by the OECD Secretariat. Caution should be used when assessing trends in United States dollars, due to considerable recent exchange rate fluctuations.

Source: Country submissions

The IEA research budget for electricity RD&D totaled \$692 million in 1986, down 4.5%. Coal RD&D spending amounted to \$677 million, down 2.3% and less than half the 1981 peak of \$1.46 billion. U.S. spending on coal fell from \$980 million in 1980 to \$256 million in 1986, though it remained in first place. Expenditures on conservation RD&D in the IEA declined 4.3% to \$466 million and renewables research 13.1% to \$484 million. The only area where an increase occurred was oil and gas RD&D, which rose 26.9% to \$312.7 million, mainly due to increases in Canada and Japan. In the U.S., however, government spending dropped 15.4% to \$38 million.

The IEA notes that, along with a continued decline in government funding of energy RD&D, private sector support, particularly in the oil industry, is being severely cut as a result of lower oil prices. "Future government RD&D funding will need to be assessed in light of the implications of this situation for medium- and long-term energy security."

For the second year in a row, the U.S. ranked tenth in government spending on research, development, and demonstration as a percentage of gross domestic product. As the second table indicates, U.S. government RD&D expenditures accounted for 0.059% of its 1986 GDP — the same as in 1985 (IGT Highlights, December 29, 1986). However, other IEA countries showed significant increases: Italy devoted

0.199% of its GDP to government energy RD&D spending, up from 0.160% in 1985; Japan 0.173% (0.134%); The Netherlands 0.129% (0.093%), and Belgium 0.094% (0.078%).

HARVARD STUDY REITERATES NEED FOR TARIFF ON IMPORTED OIL

A new study by Harvard University calls for a \$5/bbl tariff on oil imports that would reduce our rapidly rising dependence on imported oil, help maintain downward pressure on world oil prices, and encourage conservation and domestic production. The \$10 billion in revenues from such a tariff could be used to increase the size of the Strategic Petroleum Reserve and to build up stockpiles of products.

Nearly a year ago, another Harvard study recommended the immediate imposition of a \$10-\$11/bbl import fee to reduce levels to the point where the costs to society of importing an incremental barrel of oil would just balance the benefits (IGT Highlights, December 1, 1986).

In the new 99-page report, *Energy Security Revisited*, authors William Hogan and Bijan Mossavar-Rahmani of Harvard's Energy and Environmental Policy Center write that "the flare-up in the Iran-Iraq tanker war and the escalating U.S. involvement — both political and military — serve as stark reminders of the fragility of Persian Gulf oil supply flow." They concede

that the Administration's laissez-faire approach to energy markets is 'difficult to attack when oil prices are low and supplies are plentiful and also given the problems created by previous government intervention. But just because consumers feel comfortable is no reason to squander opportunities to launch policies that will bear fruit later. "The forces are in motion to shift the balance and time is short."

The authors charge that energy security policies based exclusively on the SPR are "myopic," since the SPR does not solve the problems created by rising dependence on imports. A tariff, on the other hand, forces the market to "recognize and internalize the true cost of imported oil." In estimating the size of a tariff, the researchers take into account two sets of market imperfections that comprise the oil import premium: 1) the economic component, which reflects the fact that the price the U.S. pays for oil is affected by its own level of demand and the effect of oil price changes on U.S. macroeconomic performance, and 2) the security component which reflects external costs that stem from sudden, unexpected, and large changes in the world price of oil.

They estimate that, if the price is \$27/bbl, the optimal tariff would be \$11.03/bbl; with oil at \$15/bbl, it would be \$12.55/bbl. However, they concede that a figure of \$5/bbl is politically more realistic and almost as beneficial, since it would compel the market to internalize the true cost of imported oil. Additionally, it would help maintain downward pressure on world oil prices, foster investment in capital equipment with flexibility in fuel usage, and would counteract negative effects on the nation's trade balance.

Hogan and Mossavar-Rahmani said that the Dept. of Energy's *Energy Security* report (IGT Highlights, April 6, 1987) overestimated the costs of a tariff to the nation's economy, which it put at \$200 billion over the next decade. But DOE assumed that the economy is perpetually shocked by a tariff and never adjusts. "If these assumptions are replaced with a view

of a more flexible economy and of government policies designed to avoid recession, the quantifiable benefits of a tariff indeed exceed the costs," says the Harvard study.

MIDCON WANTS TO CHARGE CUSTOMERS FOR MAINTAINING FIRM SUPPLIES

Natural Gas Pipeline Co. of America, a subsidiary of MidCon Corp., asked the Federal Energy Regulatory Commission for authorization to levy a 55¢/1000 CF Inventory Holding Charge on its utility customers to recover the cost of maintaining firm gas supplies to meet their service requirements. The charge would go into effect November 1 and be recalculated annually. On a monthly basis, customers would be assessed the costs associated with reserving the gas they do not actually purchase, minus volumes they purchase directly from producers for which NGPL receives take-or-pay credit.

NGPL said the charge would reflect future costs charged by producers for gas that is ordered but not purchased. The pipeline noted that, because of increasing spot-market purchases by utilities and other large gas users, its sales have declined from about 1 trillion CF/year to 200 billion CF/year, while average sales have fallen from historic levels of 3 BCF/day to 100 million CF/day in March and April and to 300 million CF/day at the present time.

NGPL's filing with FERC noted that, although its customers are buying small amounts of gas, they continue to nominate large volumes of gas as "insurance" against spot market shortages. "... If interstate pipelines are to be called upon to 'backstop' distributor requirements with firm supply, they must be permitted to assess charges which adequately reflect the costs of maintaining such a supply," said the filing. "Customers should not have to pay a charge for the pipeline to maintain a gas inventory they do not want. Conversely, however, pipelines cannot reasonably be expected to maintain a supply adequate to meet maximum

daily and annual obligations if their customers are unwilling to pay the costs."

Last month, NGPL asked FERC for permission to convert 20% of its service obligations from sales to firm transportation (IGT Highlights, August 10, 1987). The pipeline said it will soon file with FERC a plan to recover other gas-supply-related costs.

DOE CHOOSES 4 TEAMS FOR "MILD GASIFICATION" RESEARCH

The Dept. of Energy has chosen 4 private-sector teams to negotiate contracts to investigate "mild gasification" processes — coal conversion processes that operate at relatively low temperatures (1100-1500°F) and at near-atmospheric pressures to produce liquid and solid coproducts in addition to gases. The contracts could be worth as much as \$13.5 million over three years.

DOE notes that, while mild gasification techniques have been known since the early 1800s, recent advances in coal chemistry have resulted in processes that could increase production of liquid fuels and improve their quality. The capital cost of a mild gasification plant is expected to be relatively low compared with conventional gasification technology, because the number of processing steps is reduced and lower-cost alloys could be used in the reactor vessel.

The teams are headed by IGT, working with Peabody Holding Co., Bechtel National Inc., and Caterpillar, Inc.; the Western Research Institute, whose team comprises AMAX Inc. and Riley Stoker Corp.; the University of North Dakota Energy and Mineral Center, heading a team that includes Foster Wheeler Development Corp., Solar Turbines, Inc., and Southwest Research Institute; and the University of North Dakota Energy and Mineral Center, with a team consisting of AMAX, Inc., and J.C. Sinor Consultants.

In an initial 5-month phase, each of the 4 teams will examine the technical feasibility of various mild gasification processes and assess the industrial markets that could use the prod-

ucts. Based on the data, DOE will then select one or more of the concepts for the second-phase construction of small-scale experimental systems. If the processes selected prove technically feasible, DOE would fund a third phase, in which a larger development unit integrating all the process steps would be designed and built and a 1000 ton/day demonstration plant designed and economically evaluated.

To explore one application of a "mild gasification" product, DOE also awarded a \$100,000 grant to United Coal Company Research Corp., the Commonwealth of Virginia, and CSX Railroad Corp. to determine whether a liquid fuel produced from "mild gasification" can be burned in a diesel locomotive engine.

REPORT URGES CANADA TO BECOME WORLD LEADER IN HYDROGEN TECHNOLOGY

A report by the Advisory Group on Hydrogen Opportunities prepared for the Canadian government recommends that Canada adopt a national mission to be "first into the hydrogen age" and develop and own technologies for hydrogen production, distribution, and use, especially the use of neat hydrogen as a transportation fuel.

The report begins by noting that the world is steadily evolving toward the increased use of hydrogen and in the long term will see electricity and hydrogen dominate as energy currencies derived from a number of sustainable sources. Canada has an opportunity for leadership because of its high demand for hydrogen to upgrade products from heavy crudes and bitumen, its large reserves of natural gas, and its large electricity generating capacity which, coupled with a water electrolysis industry, will allow the production of non-fossil-derived hydrogen.

The report recommends that Canada develop and own the best technologies for the economic production of hydrogen from fossil and sustainable sources and for hydrogen purification, distribution, and storage. Suggested development areas include improving the energy efficiency of steam reforming; improving the reliability of partial oxidation; reducing the capital cost of water electrolysis, beginning with construction of a 100-MW demonstration plant; and achieving efficient hydrogen liquefaction, distribution, and storage.

The report also says that Canada must aggressively develop improved technologies for using hydrogen in the production of conventional fuels and chemicals from heavy crudes, bitumen, coal, and possibly biomass. This is the first step towards the more comprehensive integration of multiple energy sources; for example, coprocessing coal and oil, incorporating electrolytic hydrogen and oxygen into heavy oil upgrading, and mobilizing Canada's electricity generating capacity for the production of fuels and chemicals.

Canada must also develop technologies and products that use neat hydrogen. As a first step, the report recommends developing, demonstrating, and evaluating hydrogen fuel-cell locomotives, hydrogen-fueled urban road vehicles, and patrol aircrafts.

The group suggests that program be coordinated by a Canadian Hydro-

gen Authority that offers guidance and enlists the nation's scientific, engineering, business, labor, and entrepreneurial talents, but is not a "performer." The panel recommends that \$50 million in funding be allocated for an initial 5 years to the Authority which would report at the Ministerial level.

As for costs, the report notes that over the next 20 years, hydrogen will be more expensive than conventional fuels: probably 1.6 times the price of natural gas based on current methane steam reforming (SMR) technologies and about 1.2 times the price of crude oil. However, with improved MSR technologies and favorable site-specific circumstances for hydrogen derived from sustainable resources, its cost would be about the same as gasoline and other petroleum-derived fuels. Technologies must be specially developed to exploit the unique properties of neat hydrogen, which would improve its competitiveness.

In the U.S., the House Science, Space, and Technology Committee's Subcommittee on Energy Research and Development heard testimony on legislation to promote a hydrogen R&D program. T. Nejat Veziroglu, president, International Assn. for Hydrogen Energy, called for a national policy to convert from the present fossil fuel system to a hydrogen energy system over the next 50-60 years. In the U.S., the cheapest hydrogen can be produced from coal near mines and then transported by pipeline, he said.

IGT

INTERNATIONAL GAS TECHNOLOGY HIGHLIGHTS

Published by: INSTITUTE OF GAS TECHNOLOGY
3424 South State Street, Chicago, Ill. 60616
Affiliated with Illinois Institute of Technology

Editor: Colleen Taylor Sen
Associate Editor: Darrell L. Sala

Annual Subscription Rates: \$90 U.S., \$100 Foreign
All correspondence and address changes should
be sent to the editor

oil import fee

Harvard study another important reminder of U.S. energy dilemma

The U.S. last week received another important reminder that its energy situation is serious and getting more so with each new barrel of imported crude oil. The reminder came in a study, "Energy Security Revisited," by William W. Hogan and Bijan Mossavar-Rahmani of Harvard University's Energy and Environmental Policy Center.

The study will receive as much attention as supporters of its centerpiece proposal can muster. It calls for a \$5/bbl fee on imported crude oil and products. And the more attention, the better.

Opponents of an oil tariff—including the Reagan administration and a majority in Congress—should not dismiss the new Harvard study because of what it prescribes for a serious problem. It is, in fact, a clear statement of that problem, a statement that must be repeated until someone in government hears and acts.

The study happens also to be a strong argument for an oil tariff, which it says would "force the market to recognize and internalize the true cost of imported oil." This touches the heart of the issue. Something is cockeyed about a policy that funnels billions of dollars to protection of Middle Eastern oil and even risks war, yet spends nothing for domestic petroleum development. The U.S. may have better alternatives than an oil tariff. But before it rejects any option it must acknowledge all costs of the foreign oil it is consuming at rapidly rising rates.

For the moment, political arithmetic rules. Most voters and their representatives, blind to the costs of import addiction, see a tariff as a way to make oil consumers bail out the oil industry. They want no part of it. This the Harvard researchers understand. They prefer the \$10/bbl tariff proposed earlier by a colleague but figure their \$5/bbl alternative stands a better chance.

That the Harvard study gives life to the otherwise fading oil tariff discussion is one of two reasons for the oil industry to welcome it. The tariff discussion deserves more than the Reagan administration's free market cold shoulder. Perhaps more important, the Harvard study stokes the fire under a simmering national dilemma that has been studied beyond the point of meaningful analysis and officially ignored.

Given political realities, the industry might do well to pin its hopes for help at least as much

on the Harvard study's premise as on its proposal for an import fee. Other recent studies disagree on the proposal but agree on the general view of the problem: that the U.S. has a growing energy problem and that the government must do something about it.

If not an oil tariff, however, what?

The government can take great strides toward solving the nation's energy problem by quit being such a big part of it. More specifically, it can make energy policy a consideration of some priority when it deals with taxes and the environment. Against the scenario depicted by the Harvard study—steadily rising U.S. oil imports and demand, flagging domestic production—the continued existence of an excise tax on oil production seems absurd. So does legislated erosion of the producing industry's ability to recover capital and virtual elimination, by way of the alternative minimum tax, of current year expensing of intangible drilling costs.

Even more preposterous is what government does to national energy health in the name of environmentalism. Federal land management has made most remaining exploration frontiers off limits to drilling. The Environmental Protection Agency wants to stiffen regulation of drilling wastes. Air and water quality proposals would multiply costs of refining in pursuit of marginal environmental gains.

Energy policy, meanwhile, concentrates on what to do in an emergency and ignores what should be done to prevent one. Its solo achievement: a strategic crude oil stockpile. So the government fills its emergency reserve and blithely proceeds with tax and environmental actions that make the U.S. more vulnerable to the emergency that's certain to come.

That's why the U.S. is in the energy predicament to which the Harvard researchers and others point with such legitimate alarm. And that's what must change if the U.S. is to avert another oil supply disaster. If the U.S. can't encourage energy development, it should at least quit discouraging it. The government must quit ignoring what the Harvard study calls "the true cost of imported oil" and start doing something about its energy policy equivalent, the true benefit of domestic supply.



On the left screen of Intergraph's Unix-based InterAct 32C workstation is a geologic map with hydrocarbon saturation values overlaid. The right screen shows well information projected onto a 2D section with a lithologic interpretation overlaid.

So much data. So little time.

In a fraction of the time required for manual map generation, Intergraph's new software for geologic applications produces draftsman-quality maps, cross sections, and correlation panels that clarify the geologist's perception of the reservoir. By automating the traditional workflow, the geologist can quickly become productive in the interactive graphics environment.

Intergraph, the leading supplier of computer graphics systems to the oil and gas industry, has developed a truly integrated system for energy exploration and production. Interpretations derived from geophysical and petrophysical analyses can be utilized in the geologic environment to produce a final subsurface model integrating multidiscipline information.

INTERGRAPH
One System. All the Solutions.

Intergraph Corporation □ One Madison Industrial Park □ Huntsville, Alabama 35807-4201
1-800-826-3515 or 205-772-2700

Senate Rejects Plan to Keep Oil Imports From Exceeding 50% of Domestic Use

By MONICA LANGLEY

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Senate, continuing work on trade legislation, rejected a measure designed to prevent oil imports from exceeding 50% of U.S. consumption.

The senators voted 55-41 to delete from the trade package the so-called "energy security" provision. Lawmakers will continue voting next week on amendments to the trade bill—including a provision to require companies to give advance notice of plant closings and one to provide relief to domestic industries battered by imports.

Lawmakers opposing the measure said it was an attempt to help domestic oil companies. "It is special interest legislation at its worst," said Sen. Howard Metzenbaum (D., Ohio). "It seeks to prop up the domestic oil industry at the expense of every one else."

The oil-import measure had been cleared by the Senate Finance Committee in May. Sponsored by Finance Chairman Lloyd Bentsen (D., Texas), it would have required the president each year to submit to Congress a three-year projection of U.S. oil production, demand and imports. For

any year in which oil imports would be projected to exceed 50% of demand, the president would have been required to propose a corrective plan that could include tax incentives to increase domestic drilling or a fee on oil imports.

Sen. Bob Packwood (R., Ore.) attacked the measure, calling it "an effort to impose an oil import fee." He noted that the Senate had twice rejected such a fee.

After the Senate rejected the provision, Sen. Bentsen said the vote nevertheless represented "quite a dramatic change" in sentiment concerning an oil import fee. Last year, he said, only 15 senators voted for such a fee. He said he was considering offering a weaker version of the measure.

In arguing for the provision, Sen. Bentsen said the growing U.S. dependence on oil imports threatens national security. "There has probably never been a time in our history when the dangers of dependence on oil from the Persian Gulf are more apparent," the Texas Democrat said. "There is a war in the gulf and ships are being attacked."

The Reagan administration opposed the

The New York Times

Founded in 1851

ADOLPH S. OCHS, Publisher 1896-1935

ARTHUR HAYS SULZBERGER, Publisher 1935-1961

ORVIL E. DRYFOOS, Publisher 1961-1963

ARTHUR OCHS SULZBERGER, Publisher

MAX FRANKEL, Executive Editor

ARTHUR GELB, Managing Editor

JAMES L. GREENFIELD, Assistant Managing Editor

WARREN HOGE, Assistant Managing Editor

JOHN M. LEE, Assistant Managing Editor

ALLAN M. SIEGAL, Assistant Managing Editor

JACK ROSENTHAL, Editorial Page Editor

LESLIE H. GELB, Deputy Editorial Page Editor

A. M. ROSENTHAL, Associate Editor

ARTHUR OCHS SULZBERGER JR., Assistant Publisher

LANCE R. PRIMIS, Exec. V.P., General Manager

RUSSELL T. LEWIS, Sr. V.P., Circulation

J. A. RIGGS JR., Sr. V.P., Operations

HOWARD BISHOW, V.P., Employee Relations

ERICH G. LINKER JR., V.P., Advertising

JOHN M. O'BRIEN, V.P., Controller

ELISE J. ROSS, V.P., Systems

The Better Way to Tax Oil

Virtually all fiscal analysts agree that more revenue is needed to reduce the Federal budget deficit. Now Richard Gephardt joins Gary Hart in proposing to raise the money with a tariff on imported oil. Could this be the beginning of a trend among Democratic Presidential candidates, and others?

As taxes go, an oil tariff would engender the least political resistance. Oil states like the idea because their producers would profit behind the tariff. Many economists approve because it would slow the shift toward dependence on oil from the Persian Gulf. Labeled a "energy security fee" rather than a tax, it could even offer President Reagan a face-saving way of raising revenue.

If the choice were between an oil import tax and no tax at all, then tax it should be. But there are less costly ways of raising revenue that offer as much protection against OPEC. The most sensible would be to tax all oil, domestic and foreign.

According to a new study by the Energy Department, a \$10-a-barrel import fee would funnel about \$30 billion a year to the Treasury by 1995. It could stimulate domestic production by 400,000 barrels a day, while imports would be cut by 1.6 million. The annual oil import bill would fall by \$24 billion. But there are catches.

The Energy Department argues the big increase in oil prices would push up inflation by two to three percentage points. That, in turn, would reduce the gross national product by tens of billions, more than offsetting the benefits of greater self-sufficiency and lower import bills. Perhaps. But the department's analysis ignores the cost of not raising taxes. Without some credible deficit reduction, the dollar will almost certainly fall further, raising im-

port prices and disrupting world trading patterns.

More questionably, the tariff wouldn't deliver much production bang for the buck. Much of the extra \$22 billion a year going to domestic oil producers would amount to a windfall on oil that would have been pumped at lower prices. Consumers would, in effect, pay an extra \$22 billion for just 146 million barrels — nearly \$150 for each additional barrel produced.

There are diplomatic concerns, too. If Mexico, Venezuela and Canada were exempted from an oil tariff, both the revenue and efficiency gains would be halved. If they weren't, hemispheric alliances would be sorely tested.

A better way would be to increase the tax on gasoline. A 25-cent-a-gallon tax would yield about \$25 billion a year and cut the import bill by as much as \$9 billion — and with roughly half the inflationary impact of the \$10-a-barrel import fee. Unfortunately, the burden of a gasoline tax varies enormously among families and regions. Rural and suburban residents would take the biggest hit.

The arguably fairer approach would be to tax all oil products. A 10-cent-a-gallon tax spread over all oil consumers would raise the same revenue as a 25-cent gasoline tax on drivers. The oil tax would also be more efficient than an oil import fee, offering incentives for conservation without diverting billions into the production of high-cost domestic oil. Some poor people would feel the sting of higher heating costs; they could be compensated at relatively minor cost to the Treasury.

Oil and gasoline conservation taxes are unlikely to find favor along the oil belt, or among consumers. But good policy rarely coincides with political ease. The test of leaders — and those who would like to lead — is their capacity to sell unpopular ideas that make sense.



ALASKA STATE LEGISLATURE

SENATE SPECIAL COMMITTEE ON OIL AND GAS

Senator Bettye Fahrenkamp
Chairman
Senator Jack Coghill
Senator Paul Fischer

P.O. Box V, State Capitol
Juneau, Alaska 99811
(907) 465-3834

M E M O R A N D U M

TO: Members, Senate Special Committee on Oil and Gas

FROM: Committee Staff

RE: Committee Meeting, February 26, 1987

DATE: February 25, 1987

On Thursday, February 26, at 3:30 pm in the Beltz Room, the Senate Special Committee on Oil and Gas will hear SJR 8, Relating to a federal tax on imported oil.

SJR 8 urges the U.S Congress to impose a federal tax on imported oil. There are currently at least two oil import fee proposals before the U.S Congress (S 302 and S 460).

Supporters of the legislation claim that by imposing a tariff on imported oil we could reduce the national budget deficit, protect our national security, and maintain the viability of our domestic oil industry. The resulting rise in domestic oil prices would likely result in a windfall to our state treasury. Economists from the Division of Oil and Gas predict that an oil import tariff would increase state revenues by at least \$450 million a year. A flat fee of \$10 per barrel on imported oil would increase state revenues by as much as \$1.5 billion a year.

Any oil import tariff would result in increased costs to consumers. Representatives from consuming states are generally opposed to the concept. The fee is also opposed by some members of the oil industry. Certain U.S. industries such as steel, aluminum and petrochemicals would also be hard hit by increased oil prices.

Testimony will be heard via teleconference from national figures such as: U.S Senator David Boren, Tim Dowd, Chairman of the Interstate Oil Compact Committee, Ray Plank, Chairman of Apache Corporation and the Energy Security Policy Group, Dr. Robert West, Chairman of Tesoro Petroleum Corporation, and a representative of Governor Clements, Texas.

BY JOSEPHSON, KELLY, HALFORD
AND STURGULEWSKI

1 IN THE SENATE

2

SENATE JOINT RESOLUTION NO. 8

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

Relating to a federal tax on imported

6

oil.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8

WHEREAS rapidly fluctuating oil prices create an unstable environment

9

in Alaska and the United States for business planning and investment and

10

threaten the stability of the domestic petroleum exploration and develop-

11

ment industry, the stability of which is vital to the national security;

12

and

13

WHEREAS the continuation of energy conservation measures and further

14

development of alternative energy technologies could be jeopardized by

15

sharp declines in oil prices; and

16

WHEREAS the federal government needs additional revenue to reduce the

17

federal deficit and the threat of another period of high inflation; and

18

WHEREAS Americans face the prospect of significant budget reductions

19

in federal programs that are vital to the health, education, and welfare of

20

many Americans, but the imposition of an oil import tax would moderate the

21

severity of these reductions; and

22

WHEREAS a precipitous decline in oil prices results in major reduc-

23

tions in revenue to oil-producing states, subjecting them to undue hard-

24

ships in providing the governmental services and infrastructure support

25

needed to continue the production of domestic oil at the same time that

26

these states are being given expanded responsibility as a result of dimin-

27

ishing federal participation through revenue-sharing and similar programs;

28

BE IT RESOLVED that the Alaska State Legislature encourages the United

29

States Congress to impose a federal tax on imported oil, the revenue to be

Federal study indicates energy crisis likely

Journal Enquirer 2/20/87

By LEE A. DANIELS

THE NEW YORK TIMES

NEW YORK — Declining domestic crude oil production and the growing dependence of the United States on petroleum imports could lead to an energy crisis in the 1990s far worse than those experienced in the 1970s, according to the draft report of a federal advisory committee.

The study, conducted by the National Petroleum Council at the request of Energy Secretary John S. Herrington, warns that current conditions pose a serious threat to the viability of the American oil and gas industry — and to national security and economic stability.

The council, made up of experts from outside the government, is an official advisory body to the energy secretary. The draft report reaches conclusions similar to those of several other recent studies that warn that a severe oil shock could be just a few years away.

The final version of the council report is to be delivered to Herrington on Tuesday after a meeting of the council in Washington. A copy of the draft report was obtained by The New York Times. Several members of the council said that the final report was not likely to substantially differ from the draft report.

The council study, begun last spring when crude oil prices had plummeted \$19 in six months and were still falling, found that by 1995 as much as 60 percent of the nation's oil needs would have to be supplied from foreign sources, up from 27 percent in 1985.

The study states that even under a "best case" outlook, the level of imports was likely to reach 48 percent by 1995, about 10 percentage points higher than during the 1979 oil shock. Using the "best case" scenario, the import level in 1990 was predicted to be the same as it was just before the 1979 oil shortage.

The study contends that by the early 1990s the members of the Organization of Petroleum Exporting Countries, particularly those in the Persian Gulf, will probably be exerting greater control over the world oil market than they did in the 1970s.

"It makes it very clear that we've entered into that cycle that led to the oil shocks of 1973 and 1979," said George P. Mitchell, a member of the committee that prepared the report.

"The country could have very serious problems within a short period of time," said Mitchell, who is chairman, chief executive and president of the Mitchell Energy and Development Corporation of Houston.

John H. Lichtblau, president of the Petroleum Industry Research Foundation and a member of the committee, said that the report's message is that "the period of declining oil prices and declining U.S. dependence on foreign oil has come to an end."

He continued: "We are going to be much more dependent on foreign oil, and our national energy policy has to take that into account."

The study found that each of the 1970s oil shocks pushed the economy into a recession, causing the value of goods and services produced to fall

as much as 3.5 percent, unemployment to rise by up to 2 percentage points and inflation to rise by 3 percentage points. It said that the potential of an equal or greater impact increases in tandem with the country's dependence on imports.

Committee members said the study is the most comprehensive to date on the domestic ramifications of the crash in world crude oil prices that began in November 1985. At that time, West Texas Intermediate, the major American crude oil, was priced near \$32 a barrel. In late summer of 1986, the price bottomed out at \$9.75 and has since risen to around \$17 or \$18.

The council's report lists 13 general options that it says the government and the public should consider. The options include opening more federal lands to exploration for oil and natural gas; revising tax policies to encourage exploration and production; imposing a tariff on imported oil; de-controlling natural gas prices, and adding crude oil to the

nation's strategic petroleum reserves as a supply buffer.

The report also lists methods of encouraging energy conservation, including increased taxes on fuels, particularly gasoline and heating oil, and greater use of alternative fuels.

"The Congress, the administration, and the public must realize something has to be done," said Michel T. Halbouty, another committee member, and the chairman and chief executive of the Michel T. Halbouty Energy Co.

"Sure, some of these options are controversial," Halbouty said.

The draft report was called disappointing by one outside expert, Christopher Flavin, senior researcher of Worldwatch Institute, an environmental research organization.

After the report's list of options was read to him, Flavin said: "It sounds like a fairly tired old laundry list of options. Among all those things, I don't see a single one that strikes me as being new and innovative."

OIL IMPORT TARIFF

The case for a tax on imported oil

WASHINGTON — A new federal tax on all imported crude oil and petroleum products — a concept often debated but never adopted by Congress in recent years — may be an idea whose time has come.

Within the petroleum industry, support for an import tax generally has been limited to independent producers in the Southwest. They would reap a financial bonanza from such a levy because they could increase the price of their domestic oil to match the post-tax price of imports.

When the American Petroleum Institute recently held its annual meeting in Houston, however, API Chairman George M. Keller called for an oil import fee or a similar mechanism to establish a "minimum floor price" that would provide "disaster insurance."

In addition to heading the industry's main trade association, Keller is chairman of Chevron, the nation's third largest oil company.

Like other integrated, multinational firms with domestic and offshore crude oil reserves, Chevron long has adamantly opposed any government intervention in petroleum pricing.

Keller, speaking for his company but not API, suggested that an oil import tax of \$2 to \$4 per barrel could revive the financially devastated domestic oil industry.

In Washington



by
Robert
Walters

Sen. Gary Hart, D-Colo., has proposed an import tax of \$10 per barrel. He would also provide rebates to the low-income consumers who would be most adversely affected by price increases.

(Each \$1 increase in the price of a 42-gallon barrel of crude oil is equivalent to 2.3 cents in the cost of a gallon of gasoline.)

After global oil prices collapsed late last year, a barrel of crude oil plunged from \$32 to less than \$10 before recovering to the current price of about \$15.

That has led to what George P. Mitchell, one of the country's leading independent producers, has described as "a severely reduced U.S. production capacity and greater dependence upon foreign producers."

Indeed, petroleum imports during the first nine months of this year averaged 5.94 million barrels per day compared with 4.85 million barrels daily during the same period last year — an increase of 22.5 percent.

Hart is among those who argue convincingly that the higher post-tax price would encourage conservation. Mitchell, head of the Mitchell Energy & Development Corp., notes that the proposed levy would provide a needed stimulant to "our country's faltering energy productivity."

President Reagan is firmly opposed to the tax because of his antipathy to both increased taxes and government intervention in the free market.

But when the Senate convenes next year under Democratic leadership, two key committees will be chaired by legislators from leading oil-producing states who enthusiastically support an oil import tax.

Sen. Lloyd Bentsen of Texas will head the Finance Committee, while Sen. J. Bennett Johnston Jr. of Louisiana will lead the Energy and Natural Resources Committee.

Thus, industry and political pressure could surmount White House opposition to an idea that is eminently sensible, especially if domestic producers are willing to make a sacrifice in return for the financial windfall they will receive.

Specifically, they should relinquish unjustified tax benefits from accelerated depreciation allowances and immediate write-offs of intangible drilling costs.

BUSINESS

Economists See Faults in Oil Import Fee

By John M. Berry and Anne Swardson
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

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

Greenspan'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



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 bud-

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.

HARVARD STUDY URGES OIL IMPORT FEE

A study by Harvard Univ. economists Harry Broadman and William Hogan, both with the Energy and Environmental Policy Center, calls for the immediate imposition of a \$10-\$11/bbl fee on imports of crude oil and products in order to halt the nation's rising dependence on imports. They argue that such a tariff could reduce U.S. import levels to the point where the costs to society of importing an incremental barrel of oil just balance the benefits.

The market price paid for imported

oil does not reflect its true cost, which includes what the economists call an "economic component" and a "security component." The greater the volume of oil imported into the U.S., the higher the price, which means that, as demand rises, all importers must pay a higher price. Rising oil prices also have an adverse effect on the U.S. economy and the trade balance.

As for the security component, the U.S. is vulnerable in the event of a price run-up to an increased transfer of wealth abroad with all the attendant costs, and this vulnerability is a direct function of the volume of imports. Also, the larger the value share of oil in the economy at the time of a disruption, the greater the macroeconomic costs from the price shock.

In order to calculate the optimal premium, Broadman and Hogan developed a model that maximizes the

expected net social benefits of oil imports for normal and disrupted periods and allows for the simultaneous estimation of the premium's individual components. The table shows their estimates of the optimal tariff and the costs of continuing a free-market policy.

The authors consider 3 optional forms of tariff: a simple fixed fee, a variable fee, and a fee defined in proportion to the price of oil. They prefer the first on the grounds that it provides approximately the right incentives at the margin and the closest approximation to the optimal tariff calculations revealed by their analyses, and avoids the difficulties of managing the macroeconomic costs during an interruption.

The authors note that while the redistribution of resources throughout the economy will have both "winners" and "losers," the winners' gains are likely to be larger than the losers' costs.

Copies of the study are available from Nancy Kingston, Energy and Environmental Policy Center, Harvard Univ., 79 John F. Kennedy St., Cambridge, MA 02138. Price: \$10.



International Gas Technology HIGHLIGHTS

Volume XVI

December 1, 1986

No. 24

OPTIMAL TARIFF AND COST OF FREE MARKET POLICY PROBABILITY DISTRIBUTIONS

High price case (\$27)

	\$/bbl			
	Lower 25%	Median	Upper 25%	Expected Value
Economic Tariff	\$ 1.95	\$ 2.85	\$ 3.90	\$ 3.14
Security Tariff	3.63	5.64	8.52	6.44
Combined Tariff (\$ per barrel)	7.00	8.96	11.26	9.58
Cost of Free Market Policy (\$billion/year)	4.64	8.24	13.18	10.60

Low price case (\$15)

	\$/bbl			
	Lower 25%	Median	Upper 25%	Expected Value
Economic Tariff	\$ 4.03	\$ 5.68	\$ 6.87	\$ 5.86
Security Tariff	2.80	4.20	6.65	5.23
Combined Tariff (\$ per barrel)	8.71	9.81	13.52	11.09
Cost of Free Market Policy (\$billion/year)	11.72	7.90	27.93	22.44

Coghill
BPE

3:38
STR 8, Oil Import Fee

~~Joe~~ supporting statement.

~~Cody~~

Problems in domestic industry 7/85

1985 ~~48%~~ 25%
1987 40% foreign
1500% increase

70% of world's production is controlled
by Governments

San Bander - peril point.

Pres report to Cong on level of import
12 + 24 months

if rise above 50% — propose to
Congress how to reduce level

Resolution helps

Texas Railroad Commission says 46%
imports

Sen Chafee - R.I. willing to work

TOM BURNS

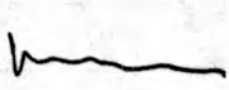
no industry wide consensus.

Chevron - raise public awareness.

tellor point out to public that a problem exists -

Studies - API
NPC
DOE
Harvard

Security premium.

Establish  price - floor.

- 1) what level necessary for survival
- 2) consensus what kind of program.
- 3) put program into place.

Important - easiest to administer -
no need for exemptions

direct nat gas

ANWR

eliminate unfulfilling

OCS development

Oil if wait to 50% — too late.
affects
GDP

3 times the effect of auto industry

Minimum floor price —

gives confidence to lenders, etc.

eliminate economic risk.

Bob Anderson

AK district had budget for
UNOCAL

3/20/86

down 700,000/day from 1986

highest 36%

1977

47% ?

2.1

lost stripper oil, enhanced recovery
Guares River - terminated.

Dryport fee - bring M. line Prod.
Cook Inlet.

~~De~~

\$24 floor?.

Fin Dond

29 states

go-go effect from OPEC

6/86 wty in Arch

2 resolution - 1 support tariff
1 support AMR

Consumer states - energy
help plan costs

Ray Plank

Natural security issue

- 1) stable price
- 2) at adequate level — to help security
thinking necessary

\$18 not enough,
\$24

dropped \$30,000/day.
by 1990 reach 50%

finding cost $\frac{1}{3}$ price of product,

24 = \$/barrel finding cost

18 wouldn't do much good.

reserves = 27 billion

long lead times. —

Harvard Study. Kennedy school dept Briggs +
Burr

U.S. has costs that other nations don't.

U.S. Navy escorting foreign flags -
Costs of -
Taxpayers pay this cost.

Unemployed lost trades, = social costs
as revenue base declines
+ loan losses to banks = 70 billion

foreign oil doesn't pay these costs -

Harvard estimates these cost = \$10/barel
forgets OPEC

OPEC wants to keep at allow our "starvation level"
other social cost

170 billion Trade deficit

Get message to S.C. -

~~Do~~
Industry division?

~~Plank~~

Personal - Exxon, Royal Dutch, Shell, Mobil
gas

is in favor of it — Public against it —
free market does not exist

Industry coming together.

Minerals — support higher prices —
to encourage alternative energy.

Also — neutral to positive —

Ed Phillips

→ letter from West Coast's Assoc.

Support trap tariff —

benefits to Alaska —

- 1) higher price — more drilling —
higher rate of throughput.
more total recovery from reservoirs.
- 2) further exploration in Alaska.
time lags + costs are higher
reduce risks
- 3) at \$18 ANWR + West Sak Sands
not viable.

De AMR - w/o price floor

BF/ \$1 = 2.3¢ / gallon. to consumer.

Dillard Hunt - State Energy Advisor
for Gov. Clements.

Clement and w/ Reagan yesterday -
#1 was tariff -

- 1) no free market
60% controlled by gov'ts
- 2) Sec of Int Trade - long lines
- 3) Sec Harington - supports tariff.

26 states = 30 million people in EOC - support
Energy pooling

Present ^{18/bushel} and Texas 1/2 production

4/21 to survive

24 to invest in new projects

Get the countries to join

- 2) conference of nations
- 3) depend on full profit tax.
- 4) 1 billion for enhanced recovery research
having 100% in ground -
technology but there.

DOE only 27% oil } on R&D
7.7% on coal }

BY JOSEPHSON, KELLY, HALFORD
AND STURGULEWSKI

1 IN THE SENATE

2 SENATE JOINT RESOLUTION NO. 8

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 Relating to a federal tax on imported
6 oil.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8 WHEREAS rapidly fluctuating oil prices create an unstable environment
9 in Alaska and the United States for business planning and investment and
10 threaten the stability of the domestic petroleum exploration and develop-
11 ment industry, the stability of which is vital to the national security;
12 and

13 WHEREAS the continuation of energy conservation measures and further
14 development of alternative energy technologies could be jeopardized by
15 sharp declines in oil prices; and

16 WHEREAS the federal government needs additional revenue to reduce the
17 federal deficit and the threat of another period of high inflation; and

18 WHEREAS Americans face the prospect of significant budget reductions
19 in federal programs that are vital to the health, education, and welfare of
20 many Americans, but the imposition of an oil import tax would moderate the
21 severity of these reductions; and

22 WHEREAS a precipitous decline in oil prices results in major reduc-
23 tions in revenue to oil-producing states, subjecting them to undue hard-
24 ships in providing the governmental services and infrastructure support
25 needed to continue the production of domestic oil at the same time that
26 these states are being given expanded responsibility as a result of dimin-
27 ishing federal participation through revenue-sharing and similar programs;

28 BE IT RESOLVED that the Alaska State Legislature encourages the United
29 States Congress to impose a federal tax on imported oil, the revenue to be

1 used to reduce the federal deficit.

2 COPIES of this resolution shall be sent to the Honorable Ronald
3 Reagan, President of the United States; the Honorable George Bush, Vice-
4 President of the United States and President of the U.S. Senate; the Honor-
5 able Jim Wright, Speaker of the U.S. House of Representatives; the
6 Honorable Robert Byrd, Majority Leader of the U.S. Senate; and to the
7 Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and
8 the Honorable Don Young, U.S. Representative, members of the Alaska delega-
9 tion in Congress.

*down
700,000 bbls
from last year.*

SM

FEBRUARY 26, 1987

Senate Special Committee on Oil and Gas

SJR 8, Relating to a federal tax on imported oil

TELECONFERENCED TO FAIRBANKS AND ANCHORAGE

TO TESTIFY:

Senator Josephson, Sponsor

→ (Cody Graves, Legislative Assistant fro Energy and Environmental Affairs, for: ←

U.S. Senator David Boren, Sponsor of S 302, Oil Import Tariff —

✓ Mr. Tim Dowd, Chairman of the Interstate Oil Compact Committee, Alaska is a member

Mr. Raymond Plank, Chairman and CEO of Apache Corporation, Founder and Chairman of the Energy Security Policy Group.

→ Mr. Dillard Hammett, Representing Governor Clements, Texas. ←

San Francisco
TOM BURNS, Manager, Economic Dept. CHEVRON

Dr. Robert West, Chairman of Tesoro Petroleum Corporation

HE JUST CANCELLED, BUT WRITTEN TESTIMONY HAS BEEN DISTRIBUTED.

Mr. Robert Anderson, representing UNOCAL *Union Oil* ← *if unchecked would be alarming*

and Ed Phillips, Petroleum Economist, Division of Oil and Gas, DNR ←

QUESTIONS:

Why is there so much disagreement among oil companies on this concept?

What would the effect on consumers be? (Each one dollar increase in the price of a barrel equates to roughly 2.3 cents per gallon of gasoline) *(rule of thumb)*

Dr Joseph Stanislaw from Cambridge Energy Research Associates indicated yesterday that he was unsure whether even \$24 oil would stimulate domestic production. Comments?

He also indicated that support for a fee might change in Congress if the level of imported oil rises above 50%.

21 to survive
24 to prosper -
other consumers to join with other nations

Secretary Harrington - agrees but does not stand up
& push for what is right for the U.S.

26 states endorsed taxing on oil export
30 million people have stood up & said we should
support a tax -
* 18 oil will cut Texas production in half.

Just met with President Reagan -
there is no free market for oil
never will be as long as 80% is produced
in 1 area

* DELIVER TO: LTCCGTG
*
* ORIGINAL
* SENT: 02/26/87 TIME: 16:39
* FROM: LIOCAN
* SUBJECT: NEW SITE
* PRINT DATE: 02/26/87 TIME: 16:39

GLENN FROM DAVID:

MR. HAMMETT HAS JOINED US FROM TEXAS.

DJ State Energy Advisor - Texas

Immediate
Consequence of
consumer
nations

Repeal windfall tax
stop leaving 60%
of oil in the ground

\$ 70 billion dollar losses in loans alone
Top priority in future generations

130 ships attacked

Last year

Social cost rise as resource is declining

Energy
Security
Policy Group

National Security
issue here

Harvard Study
Kennedy School
Energy & Environment

Energy & Environment
Study - 10 years
import fee

Variable import fee
stable

+ adequate levels to continue
US production
agree with 24
objectives of OPEC is
to get the US market

US reserves 27 billion barrels
\$30,000 per day drop

Prices would quickly rise
1800 is US standard line
170 billion trade dipper

Dr. Brown

- continue to
impact production
- only way to counter
attack has your quantities
to something like 500

Supports development
by Norway - not
feasible below
24 level for
price of oil
even 1/8 would
give some
stability -

Tim David Oklahoma

29 oil + gas
producing
states

Raymond Plank Denver

Chernobyl survival - most are too cumbersome & be workable
what type of gov effort - investors
+ producers lead time

continuing deregulation
Anwar
semi-wildfire / projects -
50% level estate.

1974 - 36%
1977 - 42%

Anchorage 410
Fairbanks 410

Ed Phillips Anchorage
Tom Burns San Francisco
Sen Boren's Office - (Codie Graves)
Bob Anderson - Anchorage
John Lund

On Line

STATE OF ALASKA 1987 LEGISLATIVE SESSION FISCAL NOTE

File

REQUEST:

Bill Version: SJR 8

Publish Date: _____

Revision Date: February 24, 1987

Agency Affected: Natural Resources

Title: Federal tax on imported oil

BRU: Petroleum Management

Sponsor: Josephson, Kelly, Halford, Sturgelews

Components: Petroleum Management

Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

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

REVENUE		*	*	*	*	*
---------	--	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

* SEE ATTACHED

Prepared by: James E. Eason

Phone: 762-4241

Division: Oil and Gas

Date: February 24, 1987

Approved by Commissioner: William J. Simpson, Deputy

Date: 2/25/86

Agency: Natural Resources

Distribution (by preparer):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

Senate Secretary

It is not anticipated that a federal import tax on imported oil would generate increased expenditures from either the operating or capital budgets. The tax would increase income to the state treasury by increasing the wellhead price of Alaska oil. Actual monetary benefits will depend upon the actual amount of the proposed tariff and the projected wellhead price. At this time it is not known if the wellhead price of Alaskan crude could adjust to match the tariff increase. Thus, all that can be said is that for every one dollar increase in wellhead price, between \$135 million and \$150 million would annually accrue to the state treasury as a result of increased royalties and severance taxes. Assuming a ten dollar per barrel tariff and a full corresponding adjustment to wellhead prices, at current production levels, the state would receive about \$1.35 to \$1.50 billion dollars annually.

By raising the wellhead price of domestic oil, and in effect, creating a floor price for domestic oil, the federal tariff would also encourage (1) more intensive drilling and production in existing reservoirs; (2) development of marginal fields near Prudhoe Bay, such as offshore Lisburne, Pt. Thompson, and Gwyder Bay; and (3) exploration in more remote, wildcat areas.

Low-Priced Oil or National Security?
An Import-Fee Alternative

Presented to Senator Richard G. Lugar, Chairman
Foreign Relations Committee
of the United States Senate
Washington, D.C.

by
Robert V. West, Jr.
Chairman,
Tesoro Petroleum Corporation

October 2, 1986