SCOMM

93:21

Legislative Research Agency

Alaska State Legislature

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January 27, 1994

MEMORANDUM

TO: Senator Johnny Ellis

FROM: Gordon S. Harrison, Director gsh

RE: **Update of Developments Regarding the Ban on Export of Alaska North Slope Crude Oil**

You asked for a brief update of the federal ban on export of Alaska North Slope (ANS) crude oil. The following is summary of recent developments.

Congress must reauthorize by June of this year the federal Export Administration Act, which contains the ban on exporting ANS oil. There will be hearings this spring on the ANS oil ban, and Senators Stevens and Murkowski are pushing Congress to remove the ban from the reauthorization measure. According to Mark Dinneen of the governor's Washington D.C. office, there is little hope that the Clinton administration will take executive action to lift the ban. However, the federal Office of Energy is currently engaged in a study of the effects of the ban, which should be finished in April.

In the meantime, Governor Hickel has sued the federal government alleging that the ban violates Article 10 (and the obscure "port preference" clause) of the U.S. Constitution and is unconstitutional. According to Joanne Grace, Alaska assistant attorney general (in the Anchorage office), who is handling the suit for the state, the case should be argued before the federal district court in March.

Please call if you would like additional information. Also, you could contact directly Mr. Dinneen at (202) 624 5858 or Ms. Grace at 269-5100.

SUPPORTING MATERIALS

THE ALASKA NORTH SLOPE CRUDE OIL EXPORT BAN REVISITED 1992

by

Charles L. Logsdon

Alaska Department of Revenue
550 W. Fifth Ave, Suite 560
Anchorage, Alaska 99501

The costs of lifting the ban would be absorbed by domestic shipping interests. The maritime interests are a powerful political force which includes:

1. ANS producers who built the required U.S. constructed and flagged tankers to comply with the Jones Act requirement that only such tankers can be used in US coastwise shipping implied by the export ban.

2. Individual Jones Act tanker owners.

3. The banks who finance tanker construction.

4. The maritime unions which crew the tankers.

Other groups favoring the ban include:

1. The U.S. Department of Defense since the ban provides an off budget means of securing a domestic tanker capability.

2. Environmental groups who oppose policies which increase domestic production of oil.

3. Representatives of states which rely on imported oil.

4. Those politicians who are antagonistic toward free trade with the Pacific Rim, particularly Japan.

CALIFORNIA CRUDE OIL PRICES

The California crude oil market has developed in isolation from the rest of the US. The development of significant reserves in the area and the natural barrier represented by the mountain ranges of the western U.S. limited the development of a West to East or vice versa crude oil transportation system. Further, most crude oil is moved to either the San Francisco Bay area or Los Angeles/Long Beach refineries by private pipeline rather than regulated common carriers.

California crude oil also tends to be very heavy and of low quality. The result of all of these factors has been a level of oil prices below world market levels. The result of the reliance on private pipelines for the marketing of regional production, has been a two-tiered price structure with imported crude at the high end and domestic postings at the low end. This occurs because of the leverage the producer/pipeline owners have over independents with only a trucking alternative. (Purvin & Gertz).

This institutional environment depressing California crude oil prices was further impacted by the opening of the TAPS. The West

ANS EXPORT BAN AND WEST COAST OIL PRICE EQUILIBRIUM

At the heart of the dispute over the "correct" value for crude oil in California during the 1980's and the part ANS played in determining value was the influence of two major institutional handicaps placed on the crude oil market--the ANS export ban, and the Jones Act. These two barriers have penalized oil producers on the U.S. West Coast directly by forcing the West Coast market to a Gulf Coast pricing basis rather than the much closer Pacific Rim market with the resulting lower oil price and at the same time reducing resource value in Alaska by requiring the use of expensive Jones Act tankers.

This double whammy on production profitability has supply side impacts which have additional negative impacts on the regional and national economy. Clearly the export ban combined with the Jones Act continues to hobble the economic potential of not only Alaska but of the entire U.S. West Coast.

In the remainder of this paper I will attempt to quantify the impact in foregone revenue and barrels of oil that the ANS export ban and the Jones Act have resulted in. The model used to estimate the equilibrium oil price on the US West Coast leaves in place the Jones Act but allows the export of ANS in foreign tankers.

A SIMPLE WORLD PRICE EQUILIBRIUM MODEL APPLIED TO ANS

The value and production effect of the export ban is a function both of the deadweight loss due to imposition of additional transportation costs on ANS marketing and the pecuniary effect the ban has on ANS West Coast price.

Other studies have simply assumed that if the export ban were lifted West Coast oil prices would reach world levels. In this section several alternative theoretical links to the World market are explored and tested with empirical data.

The model assumes that world oil prices (specifically sour crude oil) are established by the supply of and demand for Middle Eastern crude oil. All other world oil producers are assumed to be price takers and prices will be determined primarily by relative transportation costs to alternative world markets. Oil will flow to those markets which maximize the wellhead value of production subject to market competition which insures that in equilibrium the wellhead value from all sales is the same.

This model as applied to ANS uses the Pacific Rim as the basing point for West Coast oil prices in the event that exports were allowed. Another alternative would be to use the landed cost of Middle Eastern crude oil as the basis for determining West Coast oil prices. This alternative is untidy given the fact that there

There are three major conclusions suggested by these alternative specifications of ANS West Coast price.

1. The pure Gulf based price is of interest when the export ban is in place since ANS surplus to West Coast needs is disposed of in this market. The average difference in price of $1.18/bbl between using international and domestic tankers in the ANS trade is a direct estimate of the theoretical depressing effect on ANS West Coast price of the Jones Act.

2. The West Coast landed cost of Middle Eastern crude oil will exceed a Pacific Rim based ANS West Coast price if the net transportation cost difference between Valdez to West or Far East destinations is less than the incremental cost of shipping Middle East Crude oil to a West Coast rather than Far East destination.

Clearly this is the case if international tankers are used on all routes. However use of Jones act tankers results in a Pacific Rim based price higher than the landed cost of Middle Eastern crude in two of the three months sampled (although not by much).

Obviously in this case no ANS would be sold domestically since the Valdez netback from the Pacific Rim is higher than the netback of a West Coast landed Middle East crude, however since the break price is so close on the West Coast, it could be assumed in this example that competition between ANS and Dubai for Far East delivery would eventually establish a price at the U.S. roughly equal to an the ANS Far East netback price plus transportation cost to the West Coast.

Generally speaking then, using a Pacific Rim basing point price model is the preferred way of linking ANS West Coast pricing to the world market as long as there is surplus ANS on the West Coast. Logically no ANS would be sold at the U.S. Gulf Coast if exporting were allowed.

3. Comparing the Pacific Rim based ANS West Coast prices with actual spot ANS illustrates two things. First that the market for ANS on the West Coast continues to support some form of oligopolistic behavior and second that the export ban continues to depress West Coast prices by an average of roughly $1.00/bbl.

REVENUE IMPACTS OF THE ANS EXPORT BAN

As stated previously, the export ban directly impacts the value of production in Alaska by reducing the market value of the crude oil sold on the U.S. West Coast, and by increasing the costs of shipping the oil to market. Derivatively, since ANS is the incremental barrel of crude oil coming into the West Coast, the value of California production is also depressed.

In terms of national cost and benefits, some of this billion dollar a year loss is offset by revenues earned by the domestic tanker industry, and either regional petroleum product consumers or regional petroleum refiners. It might even be argued that since petroleum product prices are linked to the global market i.e. they can be freely traded, that a large amount of the implied refiner margin has gone to compliance with stringent environmental regulations in the California market.

IMPACT ON PRODUCTION OF THE EXPORT BAN

Tussing et. al., in 1987 estimated that the export ban would increase the wellhead price of ANS oil by up to $4/bbl and that this increase would increase production by 460 million bbls. in Alaska and 280 million bbls. in California over the period 1987--2000. The estimates made in this paper are considerably lower primarily because the amount of ANS going to the Gulf Coast market is lower currently due to the decline in ANS production and the continued growth in West Coast crude oil demand.

At current prices of roughly between $17.00/bbl and $19.00/bbl, an increment of $1.00/bbl would add roughly 60 million bbls of California production and 110 million bbls of Alaskan production between 1992 and 2000 assuming production price elasticities of 0.5 (Tussing, et. al.) and 0.3 respectively (State of Alaska).

CONCLUSIONS

The ANS Export Ban has remained in effect over the life of production from North America's largest oil field. The economic evidence has always indicated that the ban is inefficient and results in economic waste and a reduction in the overall level of global economic activity.

Given the current global market structure, the ban continues to depress Alaskan and California crude oil prices by nearly $1.00/bbl. At the same time the approximately 200,000 bbls/day of ANS forced into Eastern U.S. markets incurs approximately $2.70/bbl more in transportation charges than if it were exported to Pacific Rim countries in international tankers.

Taken together, the effect of deadweight transportation cost loss and reduced crude oil price reduces annual producer profit by roughly $540 million, annual state revenues in Alaska and California by $200 million, and annual Federal revenues by $275 million. The higher wellhead values resulting from lifting of the ban could result in another 750 million bbls of production in Alaska and California.

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11/19/93

The Anchorage Times

Publisher: BILL J. ALLEN
"Believing in Alaskans, putting Alaska first"
Editors: DENNIS FRADLEY, PAUL JENKINS, WILLIAM J. TOBIN
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Free trade for Alaska

CONVENTIONAL WISDOM has it that the North American Free Trade Agreement should have little if any impact on this state.

Alaska has good reason to argue that just the opposite is true — NAFTA should be the catalyst to overturn a trade inequity that has penalized this state for two decades.

We speak, of course, of the ban on the export of North Slope crude oil.

The 1973 law that authorized construction of the trans-Alaska pipeline prohibits the export of North Slope crude oil, a ban that financially damages state interests. Based in this contention, Gov. Walter Hickel is suing the federal government for $2.5 billion — the amount he believes Alaska has lost as a direct result of the export ban. The lawsuit is pending in U.S. district court in Anchorage.

An additional argument for a congressional lifting of the ban is that sale of North Slope crude in Asia, for example, would open U.S. markets to petroleum imports from Mexico, at a lower cost to American consumers.

PRESIDENT BILL Clinton has the opportunity to demonstrate his commitment to free trade policies with our North American neighbors by taking the lead to lift the ban.

By advocating the elimination of the export ban, Clinton would also affirm U.S. free trade objectives with our trading partners in Asia. The president is meeting today with Asian leaders in Seattle to discuss trade issues.

According to Sen. Frank Murkowski, who discussed this issue with Mr. Clinton Thursday at the White House, the Alaska oil export ban "is the most obvious example of a protectionism trade policy" that the United States has. By lifting the ban, he told the president, "we could improve the efficiency of our energy supplies, bring in more tax revenues and do so with few negative impacts."

Alaskans recognize that lifting the ban on the export of North Slope oil might not automatically result in Alaska's oil being shipped to the Far East. Market forces would ultimately determine where North Slope crude goes and what prices are paid for it. However, lifting the ban would remove a cumbersome regulatory burden and give U.S. producers the flexibility to respond to changes in the international market place. It would give Alaska full market value for its resource.

It would also demonstrate this nation's commitment to free trade and fair competition — both with our North American neighbors and the nations of the Pacific Rim.

And it would give Alaskans something to cheer about in NAFTA.

12/17/93

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The Anchorage Times

Publisher: BILL J. ALLEN

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Rethinking oil export

ALASKANS FOUND not much in the way of a silver lining in the cloud of gobbledegook as the Clinton administration last week unveiled its national energy strategy. Only one item held hope for this state: a new study of the potential benefits of lifting the ban against the export of Alaska North Slope oil.

The secretary of Energy announced the president's energy plan amid national anticipation the strategy would address the alarming exodus of the oil industry from the United States and the collapse of crude oil prices worldwide. The plan did neither.

It gave lip service to the importance of domestic energy sources and the concern that almost a half-million jobs have been lost in recent years in the oil and gas industry. But it contained little mention of meaningful incentives to attract industry to explore and develop domestic oil reserves.

Ironically, the plan identified deepwater portions of the Gulf of Mexico as having the best potential for a new domestic oil supply — even though the necessary technology for deepwater operations has yet to be developed. But the so-called energy plan made no mention at all of the potential of giant oil discoveries under the coastal plain of the Arctic National Wildlife Refuge — where the industry has proven it has the technology to operate successfully.

Even the one positive item — the announcement of another study to evaluate export of North Slope crude — came not because of any possible value to Alaska, but rather in response to complaints from California oil producers contending they have been hurt by shipments of Alaska crude to the West Coast.

"Permitting ANS exports in the near term will potentially stimulate onshore California production, and could initiate a less volatile transition away from imports in general," the report states.

We would have presented the case differently, saying:

- Alaska's North Slope presently accounts for more than 20 percent of the oil produced in the United States — and has for sometime.
- North Slope production is on the decline.
- Many areas of Alaska with potential oil reserves remain to be explored and developed — including the coastal plain of ANWR.
- New discoveries and production in Alaska would make it possible for Alaska to maintain its role as a key supplier of energy well into the next century.
- The oil export ban results in depressing the value of Alaska oil, thus creating a disincentive for industry to explore for new oil.

That the Clinton administration chose to focus on the oil export ban's adverse impacts on California, rather than on Alaska, probably has more to do with politics than national energy security.

Nonetheless, we'll take a little silver lining where we can find it.

The Anchorage Times

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12/20/93

End export ban

AS THE CLINTON administration sets out to do yet another study of the effects of the ban against exporting Alaska's North Slope oil, we bring to your attention two other recent economic studies of the subject: one was prepared last year by the Alaska Department of Revenue. The other, still in draft form, is the work of Economic Insight, Inc., a Portland, Ore., economic consulting firm.

Both analyses come to the same conclusion: the prohibition on the export of Alaska oil is detrimental to both Alaska and California oil production and economies, and more important, to the nation's long-term energy security.

"The ban flies in the face of market efficiency and is a classic example of political rather than economic reasoning," is how the Alaska report sums it up.

"The artificial inhibition of U.S. oil production has severe consequences for jobs and economic growth," says the Portland study. "The cost could be as high as $200 billion and amount to hundreds of thousands of well-paid jobs in petroleum development, oil-field services, manufacturing and transportation."

Stated simply, both studies conclude that the ban results in an ongoing oversupply of heavy crude available for refineries on the West Coast. That oversupply reduces the market value of Alaska's and California's production.

If Alaska's oil were free to compete on the world market and, say, be sold in Japan, the wellhead value for each barrel of oil produced in Alaska would increase by an estimated $1-to-$5 per barrel.

The total impact of this additional value per barrel, according to the state study, would be in the neighborhood of just under $200 million in additional state revenues, almost $300 million for the federal government and more than $500 million for the producers.

Both studies project that the incentive of a better return for the producers would mean additional investments to explore for new oil in remote areas of Alaska and would provide more impetus for the industry to undertake the more costly development of reservoirs such as the West Sak field.

The oil industry has already invested some $67 billion developing Alaska oil fields and transportation facilities, the Portland study notes. Continuation of the export ban — and thus the disincentive to produce Alaska oil — diminishes the prospect that additional significant investments will be made.

"The export ban of oil threatens to inhibit the development of as much as 10 billion barrels in Alaska and California over the next several decades," says the report. In an era of budget deficits and constrained public spending "it is nothing less than thickheaded imperviousness" to continue the ban, it concludes.

Let's trust President Clinton's team can come to the same conclusion.

Mar. 19, 1993

The Anchorage Times

Publisher: BILL J. ALLEN

"Believing in Alaskans, putting Alaska first

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

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Serving notice

AS IT HAS every few years since 1974, Congress last week renewed the ban on the export of Alaska North Slope crude oil as part of the reauthorization of the Export Administration Act.

The ban was a bad law when Congress wrote it almost 20 years ago. It is bad law today.

Rather than engaging in an exercise in futility, Alaska's three-member congressional delegation did not attempt a showdown vote to delete the prohibition. Our representatives knew better.

During the Reagan and Bush administrations, when there was support from the White House for lifting the prohibition, there were still insufficient votes in Congress to overcome the influence of the maritime lobby, which champions the ban. With the new president yet to take a strong position on the issue, there was no chance this year of finding enough votes to remove it.

However Sen. Frank Murkowski served notice that he intends to seek an exemption to allow export of a portion of the oil. Before the Export Administration Act comes up for renewal again in June 1994, he wants the Senate to hold hearings on a proposal to allow this state to export its royalty share of oil from the Slope.

THE PLAN might serve to draw national attention to the damaging consequences of the export ban to Alaska's and California's economies, and to the nation's energy security. It could result in lifting the ban altogether.

Few realize that as a result of the oil export ban, the market value of domestic oil on the West Coast has been depressed for some time. Oil produced in Alaska and in California sells for about $1 less per barrel than it would if it were free to compete on the world market.

That would amount to something like $12 billion lost for oil production in the two states over the last 18 years.

If the ban were lifted, and the value of oil production allowed to increase, there would be an incentive for the oil industry to increase exploration and production in both Alaska and California. National energy security would be improved as a result of more domestic production capability.

Exporting Alaska oil would also help offset the U.S. trade deficit with Pacific Rim nations.

A SENATE hearing on Alaska's request to export its royalty oil could help bring these points to the public's attention. Sen. Murkowski should follow through on his plan.

At the same time, the governor must continue to push forward with his lawsuit against the federal government. Not only is the ban bad law, it's unconstitutional.

If Congress can't be persuaded to see that, the U.S. Supreme Court may order it to do so.

California starts exports; is Alaska next?

Los Angeles Daily News

LOS ANGELES — California oil producers can start exporting their crude to Asia this month for the first time in almost two decades.

Exporting domestic oil largely is banned by the federal government as a hedge against embargoes such as the one imposed by Arab countries in the early 1970s. This position was relaxed somewhat in late October when President Bush issued a memorandum that permits the export of up to 25,000 barrels daily of heavy California crude.

While there won't be a rush of domestic oil to foreign shores, the decision could pump some cash into California's independent oil industry. Federal officials estimate that if 25,000 barrels of crude oil were exported daily, it would be equal to about $138 million a year in export sales.

But Tom Hunt, executive vice president of the California Independent Petroleum Association, says that the president's action is not going to create a windfall for state oil producers.

"You're talking about a very ugly crude and it has a very limited refining capacity throughout the world," Hunt said. "California built itself around this type of crude so we have the type of refineries to take it on. But 25,000 barrels per day is a good start to establish your marketplace."

What Hunt's group would really like to see is an easing of the ban on crude oil from Alaska's North Slope oil fields. And allowing the export of California crude is being viewed as a step in this direction.

Alaska crude is a lighter

Please see Page C-6, EXPORTS

EXPORTS: California able to start shipping oil

Continued from Page C-1

oil — it's what Atlantic Richfield Co. refines its gasoline from — so the market potential is greater.

"We're building a case in Washington and California about this arcane law," Hunt said of the Alaska crude ban. "It's a law that certainly outlived whatever usefulness it might have had."

Hunt estimates that about 1.7 million barrels of Alaska crude flow into California each day, much more than the 1.1 million barrels the state consumes. "It just drowns California in crude," he said.

This influx of Alaska crude and oil from fields off the Santa Barbara, Calif., coast have kept prices for California crude depressed, Hunt said.

He's got an ally in Alaska Attorney General Charlie Cole, who earlier this year sued the federal government over the export ban.

When Alaska became a state it was granted mineral rights to 103 million acres and was to use the proceeds from the oil sales to finance government services. The export ban scotched this plan.

"We no more got under way making those lands productive to support civil government when the federal government said, 'Oh, by the way, we're going to restrict how you are going to deal with those resources,'" Cole said.

California crude fetches about $13.75 a barrel at the wellhead, but it will cost about $16 a barrel when shipping costs are added in, making the low-quality oil rather expensive. Alaska crude delivered to the West Coast costs about $17.30 a barrel, but $18.60 if it is shipped the Gulf Coast [illegible]

looking ahead

Big potential for IOR. The Norwegian Petroleum Directorate (NPD) says that improving oil recovery from Norway's offshore fields by an average of 8%, to 45%, would yield another 3.3-billion bbl of oil. According to Statoil's *Status Weekly,* the NPD has issued a new report claiming that improved oil recovery (IOR) could result in recovery of half these 3.3-billion bbl from sandstone reservoirs in the northern North Sea. The rest would come from chalk formations further south. IOR opportunities are greatest in Norway's five biggest fields: Ekofisk, Gullfaks, Oseberg, Snorre and Statfjord. Half the additional oil should come from these fields. Water injection offers the best return, but combinations of different methods, including a larger number of wells in chalk formations, will give best results in many cases.

Battle over Alaskan exports. The Export Administration Act, which, along with three similar acts, forbids the export of Alaskan crude to areas outside the U.S., is up for renewal. Heavy opposition to renewal is coming from California independent producers who argue that the price for their oil would be $2 to $5 higher if the ban was lifted; the California Independent Petroleum Assn. (CIPA) says that Alaskan oil is flooding the state since it cannot be exported. They estimate that 100,000 to 200,000 bopd of California crude is not being produced as a result. However, special interest groups, among them maritime interest groups and some refiners, have lobbied successfully in the past for the retention of the act.

Indonesia increases incentives. Indonesian officials are expected to announce before years' end a plan to grant larger production shares to companies exploring in remote areas. The announcement should also include modifications that abolish unnecessary rules. The current production sharing arrangement in frontier areas is 80% to state owned Pertamina, and 7[illegible]% in deep offshore areas. The new split should be 65–35% in frontier areas. It is also rumored that the government might abandon investment credits which currently run 110% of capital costs for development of pre-Tertiary formations and for developments in water depths greater than 600 ft. Current production in the country, which derives 30% of its export earnings from oil and gas, is about 1.3-million bopd.

Energy initiatives called for. A joint study by two government agencies will seek to identify ways to increase exploration for oil and gas in the Gulf of Mexico (GOM), according to U.S. Interior Department's Bob Armstrong, speaking to an Interstate Oil and Gas Compact Commission annual meeting in December. Included in the study will be an examination of options to increase exploration in less developed GOM tracts. Options that may be included in the study are: allowing producers to recover some costs before requiring government royalties, reducing royalties for certain leases in the future and lowering minimum bids for leases. Armstrong added that, "With the exception of the Gulf of Mexico, there has been a virtual moratorium on offshore leasing, and not leasing anything is just as bad—as leasing everything."

Ninian extended again. Chevron and its Ninian partners have reached agreement in principle on commercial terms which should allow the development of a new spate of potential satellite fields using Ninian as a host. The agreement promotes the concept of future satellites sharing the Ninian platform's topside facilities for processing and metering, and for shipment of production to the Sullom Voe terminal. A number of potential satellites have been identified which could contain recoverable reserves of about 100-million bbl of oil, equivalent to about two thirds of those remaining in Ninian. Four of these satellites are the North East Flank, potential satellites in Blocks 3/2 and 3/3, and Columba. The commercial framework will allow drilling the satellites direct from the Ninian platforms, using spare well slots, processing capacity and common metering facilities."

Production increase temporary. U.S. production increased by nearly 160,000 bopd between September and October, due mostly to the start-up of Alaska's Point McIntyre field. But, says the *IEA Monthly Oil Market Report,* "these production enhancements are occurring against a backdrop of long-term declines and relatively low levels of oil-oriented drilling for the U.S. in general." Although the Prudhoe gas injection project, with a second phase to be completed late next year, is expected to add well over 100,000 bopd to U.S. production, that is against a declining Alaskan production profile. "The net result is expected to be only a marginal growth in Prudhoe crude oil production of less than 10,000 bopd in 1994." **WO**

CS FOR SENATE JOINT RESOLUTION NO. 13(RLS)

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE

Offered: 1/28/94
Referred: Today's Calendar

Sponsor(s): SENATORS ELLIS, Kelly, Rieger, Frank, Leman, Donley, Kerttula, Sharp, Pearce, Little, Duncan, Phillips, Miller

A RESOLUTION

Opposing the ban on the export of Alaska North Slope crude oil; endorsing HR 543, legislation removing restraints on the export of Alaska North Slope oil; requesting the Congress of the United States to pass legislation to permit the export of Alaska North Slope crude oil; and requesting the President of the United States to present to the United States Congress a recommendation to lift the ban on the export of Alaska North Slope crude oil.

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

WHEREAS 50 U.S.C.S. Appx. 2406(d) (sec. 7(d), Export Administration Act of 1979) prohibits, with tightly restrictive exceptions, the export of domestically produced crude oil transported by pipeline over the right-of-way granted by 43 U.S.C. 1652 (sec. 203 of the Trans-Alaska Pipeline Authorization Act); and

WHEREAS the limitation on export of Alaska North Slope crude oil effectively limits its sale to the domestic American market; and

WHEREAS the higher transportation cost associated with shipping Alaska North Slope crude oil through the Panama Canal to the Gulf Coast states reduces the wellhead price of the oil; and

WHEREAS lower wellhead prices raise the economic threshold for exploring for and producing all North Slope oil and, as a result, production from certain existing and newly discovered oil fields is currently uneconomic; and

WHEREAS the export ban singles out Alaska to pay its costs, penalizing the state and the North Slope producers, which pay 85 percent of the taxes collected by the state; and

WHEREAS the current export ban reduces the value of crude oil production in the state by an estimated $1,000,000,000 per year, or about $1.10 per barrel; and

WHEREAS Alaska North Slope crude oil required to be transported and delivered for sale in the domestic market incurs approximately $2.70 per barrel in higher transportation charges than if the oil could be exported in international tankers to Pacific Rim countries; and

WHEREAS domestic exploration and development of newly discovered oil reserves will enhance the nation's energy and economic security; and

WHEREAS the foreign export of Alaska North Slope crude oil will provide an incentive for further domestic oil exploration and development; and

WHEREAS new discoveries and production resulting from increased domestic exploration will facilitate the development of infrastructure and production facilities needed to produce currently uneconomic Alaska North Slope reserves and, thus, lower the average development costs of all Alaska North Slope production; and

WHEREAS exporting oil to Pacific Rim nations will decrease the substantial trade deficit with nations that have expressed a strong interest in purchasing Alaska produced oil, as evidenced by the sale under a United States Department of Commerce export license of Alaska Cook Inlet oil to a Taiwanese company; and

WHEREAS Canada, Mexico, and Venezuela, among other neighboring countries in this hemisphere, may provide stable, secure exports of crude oil to the United States at more competitive prices than Alaska North Slope crude oil because of the transportation savings; and

WHEREAS the additional cost of shipping Alaska North Slope crude oil to the Gulf Coast and eastern states imposes an unnecessary burden on those states, reduces federal and state tax revenue, reduces state royalties, and discourages exploration and development of North Slope reserves; and

WHEREAS U.S. Secretary of Energy Hazel O'Leary is reviewing the pros and cons of lifting the ban on the export of Alaska North Slope oil as part of her Domestic Energy Initiative; and

WHEREAS during his term as president, President George Bush had lifted the ban on the export of oil produced in the State of California; and

WHEREAS the amended Export Administration Act authorizes the President of the United States to recommend, and the Congress to approve by adoption of a joint resolution, export of Alaska North Slope crude oil;

BE IT RESOLVED that the Alaska State Legislature opposes the continuing ban on export of Alaska North Slope crude oil because the ban results in inefficiencies and economic waste and because it reduces the overall level of national economic activity; and be it

FURTHER RESOLVED that the Alaska State Legislature endorses HR 543, legislation removing the restraints on the export of Alaska North Slope crude oil; and be it

FURTHER RESOLVED that the Alaska Congressional delegation and the Governor are urged to continue using their best efforts to obtain passage of HR 543 or comparable legislation permitting the export of Alaska North Slope crude oil, regardless of the oil's point of production within the state; and be it

FURTHER RESOLVED that the Alaska State Legislature respectfully requests the President of the United States to exercise power given him under the amended Export Administration Act to recommend approval of the export of that oil.

COPIES of this resolution shall be sent to the Honorable Bill Clinton, President of the United States; the Honorable Al Gore, Jr., Vice-President of the United States and President of the U.S. Senate; the Honorable Thomas S. Foley, Speaker of the U.S. House of Representatives; the Honorable George Mitchell, Majority Leader of the United States Senate; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

No. 2

FISCAL NOTE

Bill Version: CSSJR 13 (JUD)

(S) Publish Date: 1-26-94

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STATE OF ALASKA
1994 LEGISLATIVE SESSION

Revision Date:

Title: Resolution Supporting the Lifting the ANS Export Ban

Sponsor: Sen. Ellis

Requestor: Senate Judiciary

Dept. Affected: Revenue

BRU: Revenue Operations

Component: Oil and Gas Audit

COMPONENT SERIAL NO. 115

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL						
REVENUE FUND SOURCE:	*	*	*	*	*	*

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Changes in CSSJR 13 (RLS) have no fiscal impact. This fiscal note is appropriate.

1-26-94 date — JMR for DLT Comte Aide (initial)

Estimate of current year (FY94) impact: 0.0

ANALYSIS: (Attach a separate page if necessary.)

* The resolution carries no operating budget fiscal impact. Should the export ban on ANS crude be lifted, revenues to the State will increase by an estimated $430,000,000 per year given the current depressed oil prices on the U.S. West Coast.

Lifting the ANS export ban would enhance the value of ANS production thereby increasing State revenues and making petroleum exploration and development on Alaska's north slope economically more attractive.

See attached for further explanation.

Prepared by: Charles Logsdon [signature] for

Division: Oil and Gas Audit ~~Division~~

Approved by Commissioner: Darrel J. Rexwinkel [signature]

Agency: Revenue

Phone: 277-5627

Date: January 24, 1994

Date: January 24, 1994

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

Fo[illegible] Office

FISCAL NOTE

(Rev 11/93) 94fiscal.nte/lal

The increase in ANS production value would result from two sources:

1. Reduced transportation costs (transportation costs are a deduction against value in determining Alaska severance tax and royalties) since Alaska is closer to Asia than to the U.S. Gulf Coast where roughly 15% of ANS production is sold.

2. Sales to the Asian market would increase the West Coast price of ANS to world levels as foreign refiners would bid against West Coast refiners to acquire ANS.

The Alaska Department of Revenue has estimated that lifting the export ban on ANS would increase state revenues by roughly $430 million per year based on current relevant oil prices. It is further estimated that lifting the export ban would increase ANS production by roughly 110 million barrels between 1994 and 2000.

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JOHNNY ELLIS
SENATOR

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ALASKA STATE LEGISLATURE
SENATE

Sponsor Statement for
CSSJR 13 (RLS)
Requesting Congress to Lift the Ban on the Export of Alaska Crude Oil

CSSJR 13 (RES) endorses HR 543, federal legislation removing restraints on the exportation of Alaska North Slope crude oil, and requests that the President of the United States present a recommendation to lift the oil export ban.

Lifting the export ban will enhance the economic vitality and security of Alaska. Exporting Alaska North Slope crude oil will encourage and facilitate further oil exploration in Alaska and other states, creating a greater degree of national energy self-sufficiency.

Due to the high transportation costs associated with shipping Alaska North Slope crude oil to Gulf Coast states and the Panama Canal, the wellhead price of oil is reduced. Since Alaska oil cannot be exported, it is sold at a discount price on the West Coast to be price competitive with California crude. This surplus of oil depresses the value of Alaska and California oil, and subsequently has a negative impact on the economies in both states. Lifting the ban would alleviate this surplus, raise the barrel prices of all oil, and increase State revenues.

At a conservative estimate, Alaska would gain from billions of dollars in added revenue and economic benefits. Exporting oil would foster more oil exploration and development by making ventures deemed economically risky under current production values more lucrative. Oil export would also help to offset the United States' trade deficit.

The potential vulnerability of the United States to embargoes - which led to the imposition of the ban - has been greatly mitigated. President Bush partially lifted the ban on California oil exporting, proving that national security and scarcity of domestic oil no longer outweigh potential economic gains. The North American Free Trade Agreement has further eclipsed the need for the Alaska oil export ban.

I urge you to support CSSJR 13 and HR 543. Lifting the ban on exporting oil is critical to the future economic security of our state.

SPONSOR STATEMENT

Department of Commerce & Economic Development / POSITION PAPER

CSSJR 13: Endorsing HR 543, legislation removing restraints on the export of Alaska North Slope oil, and requesting the Congress of the United States to pass legislation to permit the export of Alaska crude oil.

The Department of Commerce and Economic Development fully supports CSSJR 13 and endorses HR 543 removing restraints on the export of North Slope oil. Charges for the shipping of Alaska crude oil to Gulf Coast destinations negatively impact the long-term stability on the industry in the state. These shipping charges have direct negative effects on the production royalties paid to the government of Alaska.

Finally, since the price of the delivered product to the producer ultimately controls the fate of the industry, higher shipping charges do have long-term negative effects on the Alaska oil industry. The ability to export Alaska crude oil, specifically North Slope crude, would lengthen the producing field lives and facilitate smaller more dispersed fields into production.

CSSJR 13 accurately reports these conditions and situations.

Paul Fuhs by ger

Paul Fuhs, Commissioner

Date

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DCED POSITION PAPER

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103D CONGRESS
1ST SESSION

H. R. 543

To remove the restrictions on the export of Alaskan North Slope oil.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 21, 1993

Mr. THOMAS of California (for himself, Mr. DOOLITTLE, Mr. DOOLEY, Mr. ARCHER, Mr. GALLEGLY, and Mr. ZIMMER) introduced the following bill; which was referred jointly to the Committees on Foreign Affairs, Energy and Commerce, and Interior and Insular Affairs

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A BILL

To remove the restrictions on the export of Alaskan North Slope oil.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. EXPORT ADMINISTRATION ACT AMENDMENT.

Section 7(d) of the Export Administration Act of 1979 (50 U.S.C. 2406(d)) is hereby repealed.

SEC. 2. OTHER PROVISIONS OF LAW.

The export of domestically produced crude oil transported by pipeline over right-of-way granted pursuant to section 203 of the Trans-Alaska Pipeline Authorization Act (43 U.S.C. 1652) shall not be subject to the restric-

H.R. 543

tions contained in section 28(u) of the Mineral Leasing Act of 1920 (30 U.S.C. 185), section 103 of the Energy Policy and Conservation Act (42 U.S.C. 6212), section 28 of the Outer Continental Shelf Lands Act (43 U.S.C. 1354), or section 7430(e) of title 10, United States Code, or any regulations issued under any such provision of law.

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