

ALASKA LEGISLATURE COMMITTEE FILES 1991-1992 8672
7111 HOUSE LABOR & COMMERCE

FIGURE 2

1987 Western Hemisphere Crude Oil Reserves



*(Does not include Orinoco Belt heavy crude estimated at 267 billion barrels.)

FIGURE 3

1987 Estimated U.S. Crude Oil Production, Imports, Consumption and Reserves

(Billions of Barrels)



3.022 Domestic Production

1.498 +

Imports*

4.520 U.S. Consumption -

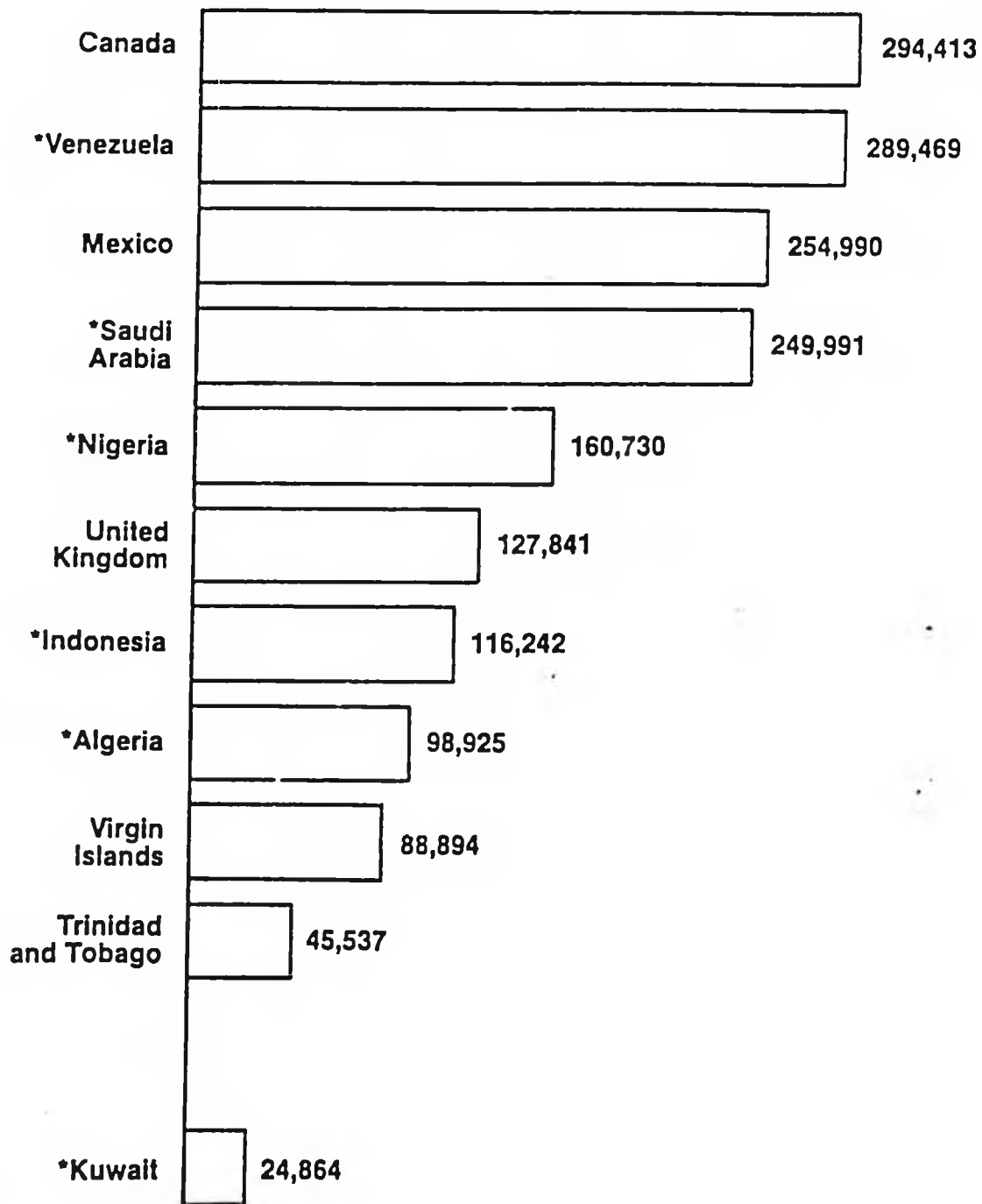
Total U.S. Reserves = 27 Billion Barrels

*Gross Imports Minus SPR and Exports

FIGURE 4

1986 Selected Sources of Petroleum Imports to the U.S.

(Thousands of Barrels)



*Members of OPEC

To put recent activities in the Persian Gulf in perspective, Kuwait supplies one percent of our petroleum imports. According to former Navy Secretary John Lehman, our military commitment to defend the Persian Gulf oil supply lines costs 40 billion dollars. That puts the true cost of Persian Gulf oil at about 140 dollars a barrel, not the 19 to 20 dollars that the market is currently setting.

An obvious question is how the nations of the western hemisphere are likely to react to a Pan American Energy Alliance proposal. The proposal was put to representatives of the four major producing countries—Canada, the U.S., Mexico, and Venezuela—at a meeting in April, in New Orleans, chaired by Senator Samuel B. Nunez, Jr., President of the Louisiana Senate and Chairman of the South/West Energy Council.

The meeting was also attended by a delegation of 15 Organization of American States ambassadors. The responses of the producing nations' representatives varied.

Mexico's PEMEX representative in the U.S., Alfredo Guterrez, stated that Mexico welcomed such discussion and would encourage a multilateral approach. He recommended utilizing the OAS as a structure within which to explore the possibilities.

Gutierrez stated that PEMEX has a number of general policies that are relevant: self-imposed export limits; independence, that is, Mexico will not become a member of OPEC; market-based pricing; geographical diversification of export markets; and opposition to trade barriers like a U.S. oil import fee.

On the other hand, Canada did not seem overly impressed with the Pan American Energy Alliance concept and stressed some of their own basic policies: support of a market driven energy policy and the International Energy Agency as a chosen forum for concerted multilateral energy policy action. Canada's Robert Skinner, Deputy Minister of Energy Commodities, was openly skeptical of multilateral efforts to achieve stability in the western hemisphere.

General Director of Petroleos de Venezuela S.A., Carlos Vogeler, noted that the Reagan Administration, by recognizing Venezuela's, Canada's, and Mexico's roles in assuring U.S. energy security, had underscored the importance of having our four nations' energy interests complement each other for the indefinite future.

Vogeler clearly stated that Venezuela does not profess to be a comprehensive answer to the energy security concerns of the U.S., but rather saw his nation as part of an energy security framework built on a strong domestic U.S. energy industry.

Vogeler concluded "...cooperation, economic complementarity, constructive compromise and dialogues are principles embedded in the foundation of Pan Americanism that should guide the community of western hmeispheric nations into a mutually secure energy future..."

The U.S. Representative was Sean Randolph, Assistant Secretary for International Affairs at D.O.E. The Administration's position generally, as voiced by Dr. Randolph, was that of support for an unfettered free market. He also raised the problem of other international commitments. Randolph stated "...there is already a working community of interest within this hemisphere based on the natural market order that exists..."

So, overall, two of the four supported further development of the concept; interestingly, those two are the most critical ones from a reserve standpoint—Mexico and Venezuela. The other two, Canada and D.O.E., stuck to their free-market guns.

Faith in the free market is not misplaced, if indeed there is a free market. Consider, however, that the U.S. is the only nation in the world with individually-owned mineral rights; in all other nations the state owns the minerals and, almost without exception, the production company as well. Instead of being a commodity on a free market, oil is more likely to be an instrument of state policy, a tool for addressing a political agenda; a political agenda that may have little to do with energy.

The South/West Energy Council is initiating debate and seeking support for a Pan American Energy Alliance. This grass roots effort by the South/West Energy Council involves briefing Congressmen, Senators, and others.

The South/West Energy Council believes a Pan American Energy Alliance offers economic stability in a precarious environment. It provides enhanced energy security for the U.S. It provides trade opportunities with our neighbors. It does not shut doors; it demands international dialogue. It is a workable proposal. As part of an integrated energy program, it provides a safety net.

Faced with the overwhelming reserves in the Middle East as well as high U.S. consumption levels, there are but two alternatives: to throw up our hands or to immediately pursue a plan to position ourselves. . . maximizing America's strengths and minimizing our weaknesses. We believe the U.S. needs a national energy policy. Our proposal is the first step.

There's a distinction, the South/West Energy Council believes, to be made between energy dependency and energy vulnerability. The Pan American Energy Alliance recognizes our dependence but moves to overcome our vulnerability.



MEMORANDUM

TO: South/West Energy Council's Executive Committee
FROM: Lori Cameron, Executive Director
RE: Alberta
DATE: April 1, 1991

EXECUTIVE SUMMARY

As discussions of affiliation between the Canadian province of Alberta and the South/West Energy Council progress, parallels in resources, energy development and legislative participation are clear. The purpose of this memo is to provide background information germane to the ongoing discussions.

In terms of energy production, Alberta is to Canada what the members of the Council are to the U.S. For example, Alberta produces 79 percent of Canada's crude oil and 83 percent of its natural gas. The member states of the Council produce 80 percent of the United States crude oil and 88 percent of its natural gas. Many of the same companies active on the Council for Legislative Energy and Environmental Research (CLEER) have Canadian affiliates in Alberta, developing the province's energy resources.

Alberta has a unicameral legislative assembly. The premier forms a cabinet of legislative members, each appointed as a minister, to direct operations of the provincial government. An Energy Committee, composed of eight cabinet members (legislators) is analogous to legislative energy committees in the Council's member states.

Affiliation of a Canadian province with a organization of states is not a novel concept. The province of Quebec became an affiliate of the Eastern Regional Conference of the Council of State Governments in 1990. Discussions between the Western Legislative Conference and the western provinces are underway.

The role Alberta might play as an affiliate of the Council must be carefully defined. A review of the Council's By-laws will be helpful in this regard, as will a review of the Council's attorneys' opinion on the federal Foreign Agent Registration Act. In the meantime, the Council's Chairman has been invited to meet informally with Alberta's Deputy Premier and Energy Minister in late May. The Chairman will report to the Executive Committee at the June meeting.

ALBERTA, CANADA'S ENERGY PROVINCE

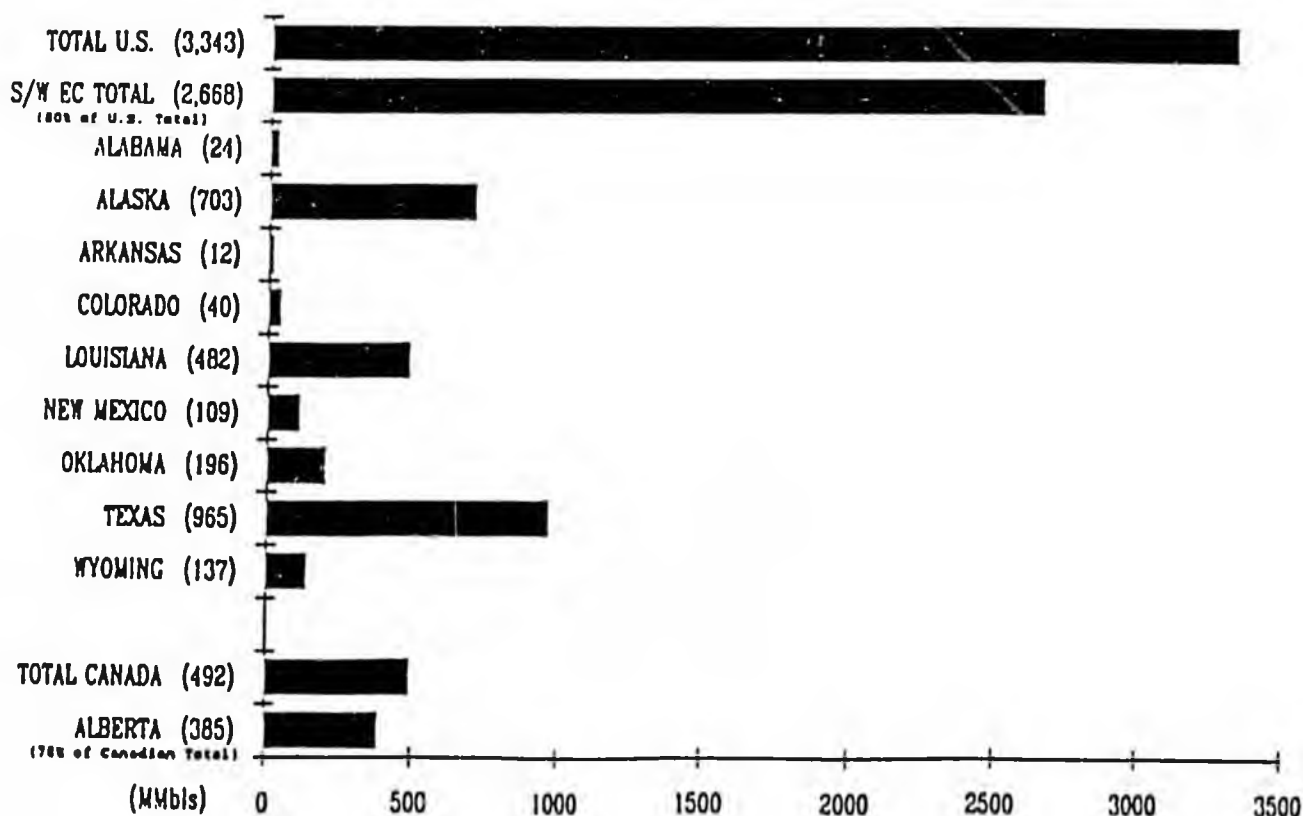
One of ten Canadian provinces, Alberta is responsible for more than 80 percent of all the energy produced in that country. With a population of 2.1 million spread over an area slightly smaller than Texas, Alberta claims energy resources to rival leading energy producing nations anywhere in the world. The province's resources include conventional crude oil, natural gas, and large amounts of coal, as well as heavy oil and oil sands.

Crude Oil

Alberta's crude oil reserves are estimated at approximately 3.2 billion barrels, about three quarters of Canada's total reserves. Relative to the U.S., the oil industry got a relatively late start in Alberta. The first commercially significant discovery of crude oil was near Leduc in 1947.

Alberta produces about 385 million barrels of crude oil a year (1989). About 20 percent of production is refined in the province, 45 percent goes to other provinces and 35 percent to the U.S. for processing. Diagram I illustrates 1989 crude production for the U.S. and Canada.

DIAGRAM I
SELECTED DATA ON
U.S. AND CANADIAN* CRUDE OIL PRODUCTION FOR 1989
(IN MILLIONS OF BARRELS)



Source: SouthWest Energy Council

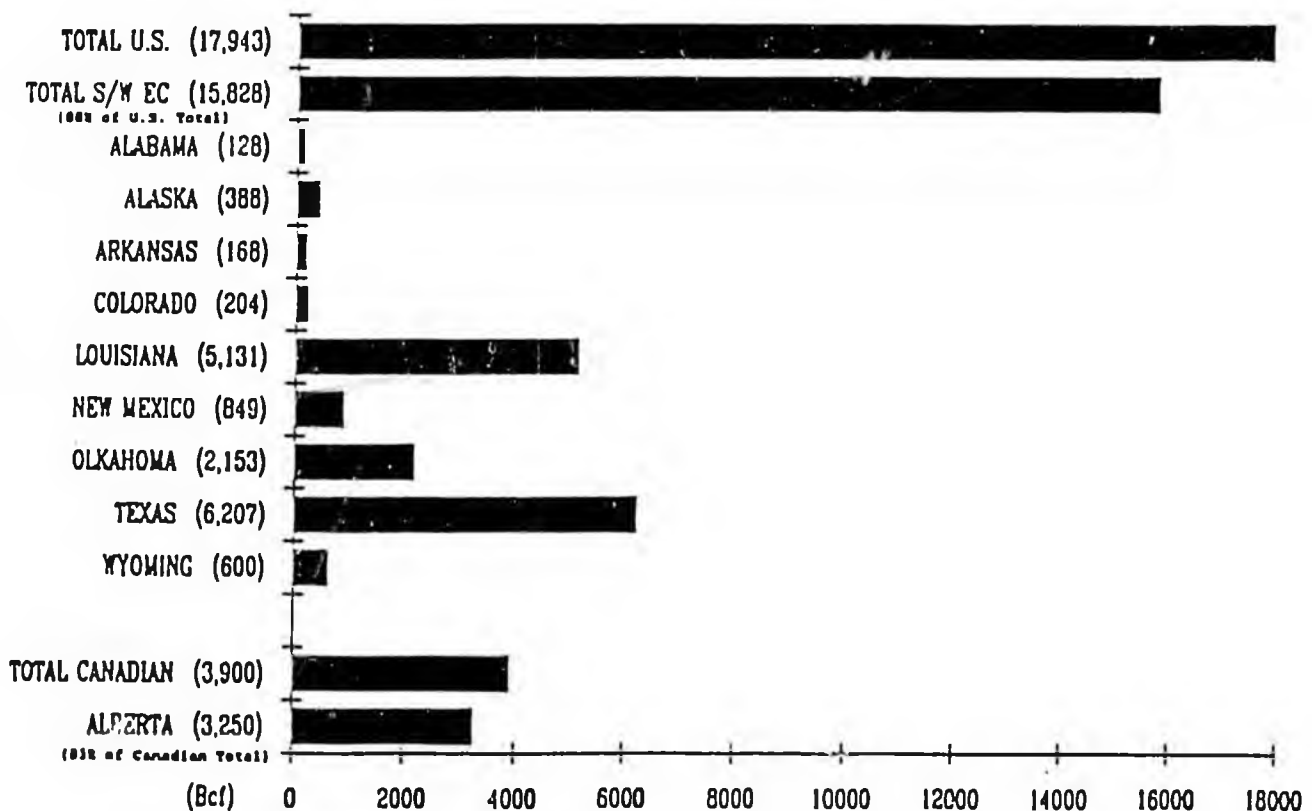
* Canadian Crude Oil Includes Light, Medium and Heavy Oil

Natural Gas

Alberta's natural gas reserves have been estimated at 63 Tcf, more than 90 percent of Canada's total reserves. Wells in the province produced about 3.2 Tcf of natural gas in 1989, a figure which represented 83 percent of Canada's natural gas production. On an energy equivalent basis, the province produced about 25 percent more natural gas than oil in 1989.

Of the natural gas produced in Alberta, twenty-two percent was consumed in the province; thirty-eight percent of the gas was consumed in other Canadian provinces; and forty percent was exported to the U.S. Diagram II presents data on U.S. and Canadian natural gas production for 1989.

DIAGRAM II
SELECTED DATA ON
U.S. AND CANADIAN NATURAL GAS PRODUCTION FOR 1989
(IN BILLION CUBIC FEET)



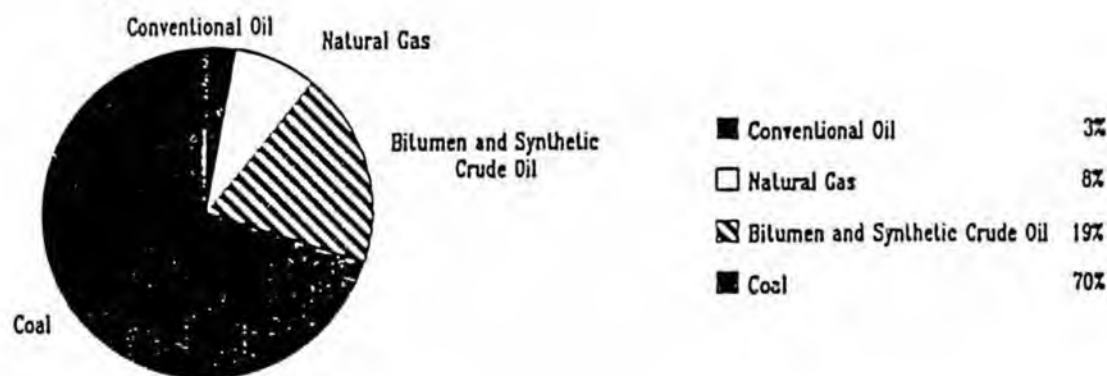
Source: SouthWest Energy Council

Coal

Alberta's coal resources include four different ranks of coal: semi-anthracite, bituminous, subbituminous and lignite. Only bituminous and subbituminous coals are currently commercially mined.

The province's low-sulphur recoverable coal reserves have been estimated at 32 billion tons. This compares to Wyoming's demonstrated coal reserve base of 68 billion tons. Coal is, by far, the largest fossil energy resource in Alberta. Fully 70 percent of the province's energy reserves are coal. Diagram III illustrates comparative energy reserve data for Alberta.

DIAGRAM III
ALBERTA'S REMAINING ENERGY RESERVES
1989



Source: SouthWest Energy Council
From ERCB Data

The province produced almost 35 million tons of coal in 1989. This compares to Wyoming's production of 172 million tons for that year. Two thirds of the coal produced in Alberta was utilized in Alberta to generate electricity, while about one quarter was exported to Japan and Korea. The remainder was shipped to other Canadian provinces.

Coalbed methane reserves have been identified in Alberta. However, no commercial production has been under taken.

Heavy Oil And Oil Sands

Alberta's oil resources are classified by density a property which largely dictates production techniques. Heavy crude is so thick that only ten percent may be recovered using "normal" drilling and production techniques. Steam stimulation is the most common technique used to coax recovery of heavy crude.

Oil sands are thicker still. The energy resource in oil sands is bitumen, which is found with sand, clay and water in a solid, immobile mixture. Where reserves are close to the surface, open pit mining techniques, much like those used to surface mine coal, are employed. Mined oil sand is heated and treated to separate the bitumen.

In deeper reservoirs, oil sand is heat-treated in place to make the bitumen flow to the surface in conventional wells. Once extracted, the bitumen is upgraded to synthetic crude oil, ready for conventional refining.

Alberta has spent over half a billion dollars in research and development on oil sands and heavy oil. The magnitude of the resource in Alberta justifies such massive investment. On an energy equivalent basis, the heavy oil/oil sands resource is equivalent to one third of the world's conventional oil reserves.

Production of bitumen and synthetic crude oil from oil sands in Alberta equaled 122 million barrels in 1989. This mounted to one quarter of Alberta's total oil production. Oil sand energy production has doubled over the last decade, while conventional oil production has declined slightly. Synthetic crude oil is produced at two facilities in the province: Syncrude Canada Ltd and Suncor Inc.

GOVERNMENT AND ENERGY IN ALBERTA

Canada is a federation of 10 provinces and two territories. The national capitol is Ottawa, Ontario. The national government is an elected parliament.

Alberta's provincial government is a unicameral legislative assembly. Following an election of the Legislative Assembly, the leader of the party with the most seats becomes premier. The party "forms" a government for the province by appointing Members of the Legislative Assembly (MLA's) to the Cabinet. Currently there are 58 MLA's from the Progressive Conservative Party (the Government Party). The two other parties hold a total of 24 seats.

Of the 82 MLAs, 27 serve in the Cabinet. Departments in the provincial government are administered by members of the Cabinet (elected members of the Legislative Assembly), referred to as Ministers.

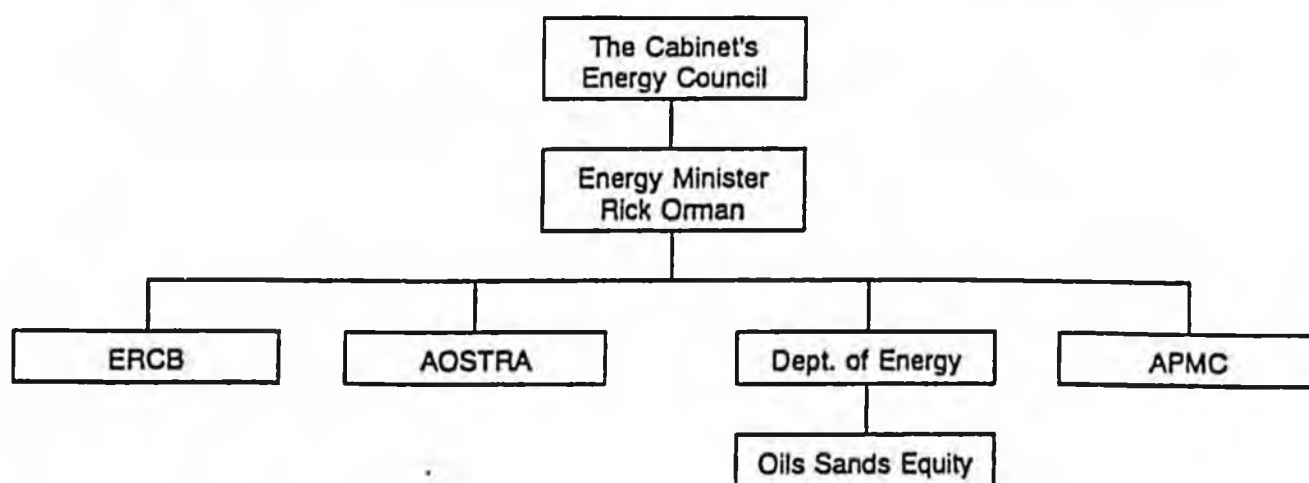
For example, Rick Orman, a member of the Legislative Assembly from Calgary, is the Minister of Energy. Jim Horseman, elected to Alberta's Legislative Assembly from Medicine Hat, is the Minister of Intergovernmental Affairs, as well as being Deputy Premier.

Alberta's Energy Council is analogous to a state's legislative energy committee. It is comprised of nine members of the Cabinet and chaired by the Minister of Energy, as well.

The provincial Department of Energy is under the direction of Energy Minister Rick Orman. The Department of Energy includes the Alberta Oil Sands Equity (which manages the governments investments in three major projects related to synthetic crude). The Alberta Petroleum Marketing Commission (which markets the government's royalty crude oil), and the Alberta Oil Sands Technology and Research Authority (which directs the government's research and development work in oil sands and heavy oil), also report to the Minister of Energy.

The Energy Resource Conservation Board is another separate agency, answering to the Energy Minister. The ERCB regulates oil, gas, oil sands, coal and electric energy in Alberta. The Board is comprised of seven members and oversees a staff of more than 700. The ERCB is analogous to the Texas Railroad Commission. In fact, when it was formed in 1938, the ERCB was modeled after the TRC. Diagram IV illustrates the structure of provincial energy regulation in Alberta.

DIAGRAM IV
ALBERTA'S ENERGY REGULATORY STRUCTURE



Source: South/West Energy Council

Mineral Ownership

Ownership of minerals in Alberta rests primarily with the province. This was not always the case. In 1867 the founding provinces of Canada (Ontario, Quebec, Nova Scotia and New Brunswick) reserved ownership rights to land and resources under the terms of the Constitution Act. However, when Alberta and Saskatchewan were created as provinces on 1905, all lands, mines, minerals and royalties were reserved to the Dominion (federal government).

After 25 years of objection, the so-called "Prairie Governments" succeeded in winning a transfer of title of public land and mineral rights to the provincial government. Only those lands in Dominion parks and Indian reserves remained in the ownership of the federal government.

In addition to provincial and Dominion ownership, mineral rights are held by successors in title to homesteaders who acquired land prior to 1888 and by a few companies who acquired large tracts during the last century (e.g. Canadian Pacific Railway). These "freeholders" are the exception though; the Province of Alberta is the major mineral holder with approximately 85 percent of oil and gas rights in the province.

In areas like those where the oil sands are found, fully 99 percent of the mineral rights are owned by the province of Alberta. This public ownership scheme is not dissimilar to that in Alaska, where 87 percent of the land and consequently most of the mineral rights, is owned by the federal or state government.

Regulation of Energy

Just as the province has wrestled the right of ownership of public lands from the Canadian government, so it has fought constantly to protect its authority to regulate energy.

The roles of the provincial and federal government in natural resource regulation were clarified dramatically 10 years ago with the adoption of Section 92(A) of the federal Constitution Act. This provision gave the provinces the right to legislatively regulate exploration, development, conservation and management of non-renewable natural resources, including rates of primary production. However, Section 92(A) prohibits discrimination among provinces with regard to energy prices, supplies or taxes.

The passage of Section 92(A) in 1982 and the signing of the "Western Accord" in 1985 were two extremely significant steps toward the creation of the current energy regulatory scheme in Canada. The agreement known as the Western Accord was reached among the producing provinces and the federal government of Canada. It decontrolled the Canadian energy industry by removing crude oil price controls and beginning a phased decontrol of natural gas prices.

Further, the Canadian - U.S. Free Trade Agreement in 1988 reaffirmed the new, limited, role of the Canadian government with regard to energy. The terms of FTA assured that export restrictions, such as price and production controls, can not be reimposed.

Private Development of Alberta's Resources

Although ownership of energy resources is predominantly held by the province of Alberta, exploration and development activities are undertaken by private companies. Major integrated oil and gas companies, which operate worldwide, participate next to locally-owned independents. The Canadian Petroleum Association consists primarily of major companies. Many of the members of CLEER's Program Advisory Board operate, or have Canadian affiliates operating, in Alberta. CPA members include:

- Amoco Canada Petroleum Company LTD.
- BP Canada Inc.
- Canadian Occidental Petroleum Ltd.
- Chevron Canada Resources
- Conoco Canada Limited
- Esso Resources Canada Limited
- Gulf Canada Resources Limited
- Mobil Oil Canada
- Phillips Petroleum
- Shell Canada Limited
- Standard Oil Production Company
- Texaco Canada Petroleum Inc.
- Unocal Canada Limited

A second organization represents smaller exploration and development companies; this group is the Independent Petroleum Association of Canada (IPAC). Like their American counterparts, the independents own only about 20 percent of total oil and gas assets, but are responsible for over fifty percent of the wells drilled.

ALBERTA AS AN AFFILIATE OF THE SOUTH/WEST ENERGY COUNCIL

At the December, 1990 meeting of the Executive Committee of the South/West Energy Council discussion on a relationship with Alberta were begun. There are a number of interesting parallels between Alberta and the members of the South/West Energy Council.

It is essential though, that the role Alberta would play as an affiliate of the Council be carefully defined and thoroughly understood. Voting status, dues, leadership roles and other issues addressed in the Council's By-laws, are all questions remaining for discussion.

The question of applicability of the federal Foreign Agents Registration Act has also been raised. This federal statute requires that anyone acting as an agent on behalf of a foreign principal file a registration with the Department of Justice. Attached as Appendix A is a memo prepared by the Council's attorneys, Vinson & Elkins, discussing the applicability of this Act.

The attorneys point out that, in a legal sense, there are two tests to determine whether the Council would be considered an agent of the Province of Alberta (a foreign principal):

"The first concerns whether, by virtue of the Alberta membership, the Council itself would be a foreign agent. This determination should be based on the extent, if any, to which Alberta would be able to determine the actions of the Council. A category of nonvoting membership, for example, should help to show the inability of the Province to "control" the Council.

Even if the Council were not considered a foreign agent, the second question to be resolved is whether anyone acting on behalf of the Council itself would be a foreign agent. The answer to this question turns on the extent of control over and the degree of funding for the Council's activities provided by Alberta relative to that of other Council members. If dues paid by Alberta are a relatively small percentage of the overall funding of the Council, for example, a strong argument exists that the organization is not financed in major part by the Province. A percentage well under 50 percent would help.

... the ability of the Council to avoid registration under the Act will depend on being able to establish that no agency relationship exists and that the Province of Alberta does not possess or exercise control over the Council's activities."

Continuing Discussions

With the ongoing approval of the Executive Committee, discussions with Alberta are scheduled to continue. Council Chairman Ted Strickland has been invited by Alberta Deputy Premier Jim Horseman and Energy Minister Rick Orman to meet informally in late May.

Those discussions follow the presentation made to the Council's Executive Committee in December, 1990 by David Manning. Alberta's Senior International Trade Counsel to the U.S. Manning's participation in Council conferences has been continuous for more than a year. Additionally, 10 members of the Council visited Alberta in September, 1989 and toured oil sand operations.

Manning set up meetings for the Council's Executive Director in early February with staff members of the Alberta Department of Energy, the Alberta Petroleum Marketing Board, and IPAC, as well as with the ERCB. Those meetings provided the background for this memo.

A formal invitation to the Council to hold its global energy and environmental issues conference (December, 1991) is anticipated from Ministers Horseman and Orman to Senator Strickland in May. The Chairman will report to the Executive Committee at the June meeting and the issue of Alberta's role as an affiliate of the Council will once again be on the agenda for that meeting.

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SOUTH/WEST ENERGY COUNCIL

STRATEGIC PLAN

1991-92

**Colorado Senate President
Ted Strickland
Chairman**

INTRODUCTION

The South/West Energy Council turned 15 years old in December, 1990. Those years have seen the growth of the Council (from the five original states, to the current nine), as well as an evolution of the Council's purpose. This Strategic Plan will serve as a guide through 1992, allowing the Council to better direct its resources, financial and human, toward specific goals and objectives important to its member states, and the nation as well.

GOALS

There are three primary goals of the Council; these are the purposes for which the Council exists:

1. To participate in the development of the federal energy and environmental policy;
2. To assist member states in developing sound legislative energy and environmental policies; and
3. To initiate dialogues with energy and environmental policymakers at all levels, to improve the understanding of issues facing the states, the nation, and the world.

OBJECTIVES

The objectives set by the Council are specific methods to achieve the Council's purposes. The objectives may be discussed in terms of organizational matters within the Council; interaction with state and federal governments; and the establishment of dialogues policymakers, in some cases utilizing the Council's research affiliate, CLEER, to accomplish such ends.

Organizationally, it shall be the objectives of the Council to:

1. Meet on a quarterly, scheduled basis at an identified location, under the direction of the Chairman and the Vice President for such meeting, to address identified objectives, which are compatible with the meetings topical theme.
2. Consider changing the name of the Council to reflect its non-regional, legislative nature and energy and environmental policy interests.

3. Evaluate expanding the membership of the Council to include Alberta (as non-voting, international affiliate), and Mississippi (a Southern oil and gas state); as well as Kansas (a Midwestern oil and gas state), North Dakota (a Midwestern oil and gas state), Utah (a Western oil, gas and coal state), West Virginia (an Eastern gas and coal state), and Pennsylvania (an Eastern oil, gas and coal state).
4. Hold a symposium on environmentally-significant energy technology in the Council's member states, developing a directory of exemplary projects.
5. Schedule a formal budget review by the Council's Executive Committee twice a year (at the Annual meeting and the second meeting thereafter).

Objectives relating to interaction with state and federal governments will include:

1. Developing a means of effectively providing input into federal energy and environmental policy making, to include regular meetings with Congressional advocates and adversaries, and the development of a distribution list for Council policy statements.
2. Working closely with the USDOE on the development of a National Energy Strategy, while reviewing and updating the Councils' own proposal.
3. Developing dialogues with Northeastern and Midwestern States.
4. Maintaining close contact with the NCSL.
5. Developing a program for tracking environmental legislation.

Objectives dealing with the development of dialogues range from discussions with private sector executives to state regulators, and will include international agencies and contacts:

1. Working closely with CLEER to facilitate meetings with energy company executives.
2. Scheduling programs to assure discussions with state regulators (e.g. oil and gas commissioners, railroad commissioners, corporation commissioners) and the initiation of an exchange of views with NARUC.
3. Maintaining and further developing Western Hemisphere contacts; monitoring European Community energy actions, as well as OPEC's; and educating the Council on Pacific Rim energy concerns.

IMPLEMENTATION

The bulk of the work in implementing the objectives, and consequently, the goals of the Council, will be in conjunction with the Council's quarterly topical conferences. Structurally, each meeting is designated as a Federal Energy and Environmental Matters Conference, a State Trends in Energy and the Environment Conference, a Global Energy and Environmental Issues Conference, or the Annual Meeting.

Under the terms of the Council's by-laws, the Chairman appoints a Vice President to supervise the development of each topical meeting. Prior to each topical meeting, the Vice President, the Chairman and the leadership of CLEER meet with CLEER's Program Advisory Board to receive recommendations on issues of interest and qualified speakers.

Table One, "Council Meeting Schedule by Topic, Location, Vice President and Objective Implementation," sets forth the proposed schedule for the Council's 1991-1992 meetings.* Because the Council meets quarterly, many of the objectives will be addressed at these conferences.

The Executive Committee will meet at each Conference to monitor the Council's progress and address administrative, as well as policy, matters. Additionally, staff and leadership will continuously pursue the objectives over the course of the year.

SUMMARY

During the period 1991-1992, the South/West Energy Council will systematically address its goals of influencing the development of federal energy and environmental policy, assisting its member states and developing energy and environmental policies; and initiating dialogues with energy and environmental policymakers at all levels, improving the understanding of such issues facing the states, the nation, and the world.

These goals will be implemented as a series of objectives which address not only the management of the Council, but its interaction with state and federal agencies and officials, as well as energy and environmental policymakers. The Strategic Plan provides the structure of a conference schedule; the leadership of appointed vice presidents; and objective milestones which will enable the Council to well serve its states and the nation in 1991-92.

* The Council met in Lafayette, Louisiana (December, 1989); Gulf Shores, Alabama (March, 1990), Washington, D.C. (June, 1990, Oklahoma Representative Bill Brewster was Vice President); and Anchorage, Alaska (September, 1990, Arkansas Senator W.D. Moore was vice President).

TABLE ONE
COUNCIL MEETING SCHEDULE BY TOPIC, LOCATION, VICE PRESIDENT
AND OBJECTIVE IMPLEMENTATION

| Meeting Date | Meeting Topic | Meeting Location | Vice President For Meeting | Implementation Of Objectives |
|--------------------|--|---|--|---|
| April 7-9 1991 | Federal Energy and Environmental Matters | Washington, D.C. Loews L'enfant Plaza Hotel | Rep. Taylor Harper (AL) | <ol style="list-style-type: none"> 1. Review DOE's progress on the progress on the NES; prepare comments 2. Develop a means of effective input into federal energy and environmental policymaking 3. Organizationally <ol style="list-style-type: none"> A. Consider name change B. Consider Alberta, Mississippi for membership |
| June 20-23 1991 | State Trends in Energy and the Environment | Colorado CO Springs Cheyenne Mtn. Conference Center | Rep. Glen Johnson (OK) | <ol style="list-style-type: none"> 1. Invite key legislators from the Northeast and Midwest, as well as the South and West, to participate on panels on state trends 2. Invite legislators from Kansas, North Dakota, Utah, West Virginia, and Pennsylvania, as well as NCSL Energy and Environment Chairmen, and staff to attend 3. Invite NARUC and other state regulators to participate in the program |
| September 5-8 1991 | Annual Meeting | New Mexico Albuquerque | Sen. Manny Aragon (NM) Energy Technology Symposium V.P. | <ol style="list-style-type: none"> 1. Hold Symposium on Environmentally-Significant Energy Technologies as part of the Annual Meeting 2. Organizationally, review budget and institute alumni project |
| December 5-8 1991 | Global Energy and Environmental Issues | Alberta (Canada) | Sen. Terry Guice (WY) | <ol style="list-style-type: none"> 1. Develop new Western Hemisphere energy contacts 2. Monitor European Community and OPEC actions 3. Educate the Council on energy issues in the Pacific Rim |
| March/April 1992 | Federal Energy and Environmental Matters | Washington, D.C. | Sen. Drue Pearce (AK) | <ol style="list-style-type: none"> 1. Review and update Council's NES proposal 2. Review (and adjust as necessary) Council's program for effective input into federal energy and environmental policymaking |
| June 1992 | State Trends in Energy and the Environment | Oklahoma | Rep. Sylvester Turner (TX) | <ol style="list-style-type: none"> 1. Develop program for tracking environmental legislation 2. Develop systematic approach to interaction with NARUC |
| September 1992 | Annual Meeting | Arkansas | Rep. Doc Bryan (AK) | <ol style="list-style-type: none"> 1. Prepare 1991-92 Strategic Plan for the Council 2. Review Budget |

South West
Energy Council

REP. BILL K. BREWSTER (OK)
CHAIRMAN
SOUTH WEST ENERGY COUNCIL

REP. JOHN W. RAMSEY (AR)
CHAIRMAN
SOUTH WEST ENERGY RESEARCH FOUNDATION

ALABAMA:
SEN. EARL GOODWIN
SEN. EARL HILLIARD
REP. TAYLOR F. HARPER
REP. WALTER E. PENRY, JR.

LOUISIANA:
SEN. ALLEN R. BARKS
SEN. SAMUEL B. NUNEZ, JR.
REP. JOHN SIRACUSA
REP. ARTHUR W. SOLR

ALASKA:
SEN. BETTYE M. FAHRENKAMP
SEN. DRUCE PEARCE
REP. MARK BOYER
REP. MIKE NAVARRE

NEW MEXICO:
SEN. MANNY M. ARAGON
SEN. JOSEPH K. HARVEY
REP. RICHARD T. KNOWLES
REP. ROBERT S. LIGHT

ARKANSAS:
SEN. W. D. MOORE, JR.
SEN. KNOX NELSON
REP. L. L. BRYAN
REP. LLOYD GEORGE
REP. JOHN W. RAMSEY

OKLAHOMA:
SEN. BILLY A. MICKLE
SEN. STRATTON TAYLOR
REP. LARRY ADAIR
REP. BILL K. BREWSTER

COLORADO:
SEN. TILMAN M. BISHOP
SEN. TED L. STRICKLAND
REP. CARL B. BLEDSOE
REP. SCOTT McINNIS

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SOUTH/WEST ENERGY COUNCIL

The South/West Energy Council is the organization of state legislators representing the energy-producing states of America. Drawing on the knowledge gained through years of hands-on experience, the Council provides a forum for state legislators to develop public policy responses to national energy and environmental issues. The purpose of the Council is to promote a national energy policy that encourages domestic energy production and ensures long-term energy security for the nation.

Through the Council, legislative leaders from the states of Alabama, Alaska, Arkansas, Colorado, Louisiana, New Mexico, Oklahoma, and Texas identify emerging policy issues in the areas of energy production and environmental protection. In developing public policy recommendations, the Council strives to effectively promote energy and environmental policies which will provide the greatest incentive for the development of our energy resources while maintaining the integrity of our environment.

For over ten years, the South/West Energy Council has actively encouraged the federal government to provide the incentives necessary for the development of domestic natural resources while limiting the regulation of production, transportation, and pricing of energy resources.

To promote its policy recommendations, the Council has provided testimony at Congressional and federal agency hearings, coordinated letter-writing campaigns in support of legislation, and filed intervention briefs in adjudicatory hearings.

In addition to direct contact with federal officials, the Council influences national energy policy by forging broad-based coalitions and coordinating grassroots lobbying efforts. The policy statements contained in this booklet are examples of the Council's ability to engender wide spread support for its policy recommendations. Many of these policy statements were adopted by three or more of the following government associations: the Southern Legislative and Western Legislative Conferences of the Council of State Governments, the National Conference of State Legislatures, and the Southern Governors' Association.

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SOUTH/WEST ENERGY COUNCIL

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PAN AMERICAN ENERGY ALLIANCE

Background.

The past year's fluctuations in world oil prices and supply patterns once again demonstrate that the United States' access to this vital strategic resource is vulnerable to concerted political action by governments in the Middle East.

In 1987, the United States reliance on imported oil increased to forty-one percent - the highest percentage in seven years. With the United States' demand for oil increasing at a rate of two percent per year, the reliance on imported oil will increase because the United States' domestic exploration and production capability has been seriously eroded.

Over the past decade, the United States has successfully increased its share of imported petroleum products from our Western Hemisphere neighbors and decreased our imports from the volatile Middle East. Alarming, this positive trend has recently reversed and the Middle East is again the dominant exporter of crude oil to the United States.

The energy crisis of the 1970s taught the United States that manipulation of the world oil market by sovereign governments can run counter to the United States' interests. However, that crisis also proved that several of the United States' trading allies could be counted on for support in troubled times. In particular, Venezuela, Mexico, and Canada, increased their exports of oil to the United States when other nations reduced their exports.

Canada and the United States have the largest two-way trade in the world. We are each others largest export markets. Canada sells three-quarters of its exports to U. S. markets, while at the same time absorbing almost one-quarter of total U. S. exports.

As energy partners, Canada and the United States have a history of cooperation and trade. Canada currently supplies about five percent of the total U. S. oil consumption and approximately five percent of the natural gas consumed in the United States - the equivalent of over 700 thousand barrels of crude oil per day. In the event U. S. supplies tighten, one of the first places for the United States to look for incremental supplies is Canada. In times of U. S. supply constraints, imports of Canadian gas lend greatly to U. S. energy security.

Mexico shares not only a common border, but also a rich cultural heritage with the Southwestern United States. It has grown into one of our major sources of imported oil and natural gas. In fact, Mexico was our third largest supplier of crude oil during 1987, with only Saudi Arabia and Canada ranking higher.

Mexico's dependence on oil earnings to provide government revenues and sign exchange is very clear. PEMEX investments in future oil and gas development and the United States' clear need for stable, long-term supplies of oil indicate that our trading relationship can do nothing but grow in the future.

Similarly, almost half of all Venezuelan oil exports are to the United States. During 1987 Venezuela was the leading exporter of petroleum products and the fifth largest exporter of crude oil to the United States. Combining products and crude oil, Venezuela is virtually equal to Canada as the exporter upon which the United States most depends.

1
2 Venezuela has the ability to export large quantities of crude oil and petroleum
3 products for many decades. The United States and Venezuela are close geographical neigh-
4 bors, who like Mexico and Canada, share similar forms of democratic government. The
5 United States will need to continue to rely on foreign sources of oil for the foreseeable fu-
6 ture. Therefore, the oil situations of both countries are complementary and both countries'
7 long-term energy interests are such that the United States and Venezuela should continue
8 to be important commercial partners for many years under fair conditions of trade.
9

10 Action.

11
12 Canada, Mexico, Venezuela, and the United States are long-standing energy trading
13 partners. We share a history of working together in successful oil and gas exploration and
14 development. We share the ups and downs of a rapidly changing energy environment. And
15 we share a common vision of the future - a vision of a sound energy industry in each of our
16 countries - able to provide the energy security needed to ensure the health and vitality of
17 the entire Pan American economy.
18

19 The United States also shares a democratic bond with the people of Canada,
20 Mexico, and Venezuela. Our governments strive to improve the overall well-being of all
21 our citizens, while providing rich opportunities for individual freedom and growth. Thus,
22 it is only natural that representatives of our four nations have gathered to explore options
23 which will increase the hemisphere's energy security.
24

25 Therefore, in recognition of our long-standing trading history and to plan for the
26 increased security of our peoples and economies, the South/West Energy Council urges the
27 Congress and the Administration to engage in formal deliberations with the governments
28 of Canada, Mexico, and Venezuela, as well as other interested American states, to develop
29 a Pan American Energy Alliance to provide reciprocal energy security measures for the
30 nations of the Western Hemisphere.
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The Need for an Energy Policy Now

Representative Pauline Eisenstadt

As the world watched Saddam Hussein's every move, it was easy to feel overwhelmed by the fact that an irrational despot so far from our daily lives could play such a deadly role. However ill-equipped we at home may be to judge foreign policy decisions, there is something all citizens can do if we have the resolve.

Our soldiers fought and died in the Persian Gulf in part because of our failure to implement a coherent and comprehensive energy policy, as well as because of the aggressive opportunism of Saddam Hussein.

Oil supplies to this country were disrupted in the 1970s. Then we paid only higher prices, not blood, to satisfy our gluttonous energy appetite.

As long as we rely on an inherently unstable region of the world to sate our voracious energy wants, the Persian Gulf scenario and the energy shortages of the 1970s will play themselves out over and over.

There are solutions that a responsible federal government must adopt, and there may be ways citizens at the grassroots level can spur Washington to action. The nation was on the path to energy independence under the guidance of Jimmy Carter, who stressed conservation and the development of alternative energy sources as a substitute for Persian Gulf oil.

Worldwide energy consumption dropped enough to break the OPEC cartel. Once that happened and the price of Middle East oil fell, the Reagan administration lacked the fortitude to stay the course.

According to Department of Energy

Representative Eisenstadt is a member of the New Mexico House of Representatives. She founded Energy Consumers of New Mexico, a consumer energy advocacy group, and served five years as its executive director.

statistics, U.S. domestic oil production has increased from 15.3 million barrels per day in 1982 to 16.9 million barrels per day in 1990. Consumption, however, has far outpaced these increases in production, and the percentage of oil we im-



port has jumped from 28.1 percent to 45 percent in those eight years.

By contrast Japan, a country with no oil resources of its own, managed to spend only 5 percent of its GNP on energy in 1985, while we spent 11 percent. Japan and other countries are improving their energy efficiency and diversifying their energy sources faster than we are. For example, projections for the year 2000 show that renewable energy (solar, wind and hydropower) should account for 64.3 percent of Brazil's energy needs, 63 percent of Norway's and 13.5 percent of Japan's.

In the United States, it is anticipated that these energy sources will provide only 8.7 percent of our energy needs. By 1986, expenditures for research and development of alternate energy sources in the United States had dropped 80 percent from their 1980 high of \$900 million. Compare that with the 1990 price tag of \$16.4 billion for Operation Desert Storm.

"We wouldn't have needed any oil

from the Persian Gulf after 1985 if we'd simply kept on saving oil at the rate we did from 1977 through 1985," wrote physicist and conservation advocate Amory Lovins in a recent *New York Times* op-ed piece. This would make a terrible epitaph on our soldiers' graves.

We are indeed far from the shifting sands of Saudi Arabia and should probably leave foreign policy to the diplomats. But viewing the national will as an aggregation of the wills of each state, we can take a first step toward restoring energy issues to the top of the federal agenda and do our part at the state and local levels to reduce the country's dependence on foreign oil.

The New Mexico Legislature will consider measures that would:

- Encourage state purchasers to consider energy conservation as well as short-term costs when buying state equipment.

- Offer incentives for consumers to purchase fuel-efficient cars, offer solar tax credits and mandate recycling programs in all the state's urban areas.

- Establish an energy conservation task force to include representatives of the Los Alamos and Sandia national laboratories which, during more prosperous times, pioneered the national search for alternative energy sources.

These measures are not an end in themselves. Rather, it is hoped they are the sounding of a voice that has been silent for too long.

The time is now for New Mexicans and all Americans from our other 49 states to unite and send a message to Congress and the president that there is a strong will in this country to formulate a coherent and comprehensive energy policy, which has been absent for a decade.

Installing energy conserving devices and researching alternative energy sources may be expensive. But as Saddam Hussein has made so painfully clear, money is just a pittance of the total cost. Blood runs thicker than oil. ☐

U.S. energy policy aims to set up Western Hemispheric alliance

By Michael Arndt **A. L.**
Chicago Tribune

WASHINGTON—Just as the United States is working to create a new world political order, it is trying to shape a new order in the world of energy.

In the future, the Bush administration and many in Congress want to see the nation get more of its oil imports from within the Western Hemisphere. International cooperation also might extend to linking natural gas pipeline networks and electricity grids, at least throughout North America.

If such an alliance is achieved, under either a multilateral free trade agreement or a set of bilateral pacts, the U.S. could reduce its oil dependence on the volatile Persian Gulf region.

Until recently, the United States has been the chief—and sometimes sole—advocate of a Pan-American energy pact. But Pan-American oil producers, hungry for U.S. investment and anxious about losing the U.S. market to other exporters, are growing more accepting.

Even Mexico, the nation in the hemisphere that is perhaps the most fearful of U.S. economic domination, is considering a free trade treaty with the U.S.

"Our feeling is that we need to build a new hemispheric strategy with Venezuela, Mexico, Canada, all combined," Energy Secretary James Watkins said last Thursday. "We have a lot of work to do. But I think here is part of the new world order emerging. And here's the time to take advantage of it."

Hoping to do just that, Commerce Secretary Robert Mosbacher last week led a delegation to Venezuela to discuss oil matters with senior officials of the government and Venezuela's state-owned oil company.

Mosbacher's meetings followed others by Watkins and President Bush. They also had similar agendas, say people familiar with the meetings.

Many in Congress also support a Western Hemispheric energy alliance. House Budget Committee Chairman Leon Panetta (D-Calif.) introduced a wide-ranging energy measure Friday that calls for greater hemispheric energy cooperation



Energy Secretary James Watkins

Proponents acknowledge that the old order hinders development of a new one. Throughout the Americas—North, South and Central—the United States is regarded with suspicion and resentment.

Free trade pacts would require other countries to give up at least some of their economic sovereignty.

Meeting such a demand may be politically impossible. The Mexican constitution, for example, explicitly prohibits foreign ownership of any of the nation's oil assets—most of which U.S. corporations owned until Mexico nationalized them in 1936.

Even the free trade treaty between the United States and Canada, the nation most like the U.S., took years to negotiate.

Moreover, unless governments expend huge amounts of money to subsidize the development of non-conventional oil sources, such as tar sands in Alberta, the United States still would have to buy some oil from Europe, Africa and the Middle East, which now supply nearly two-thirds of U.S. imports.

But if these non-conventional sources were developed and gas and electric networks were expanded, allowing greater use of these energy sources, the Western Hemisphere could become self-sufficient.

The Americas' unconventional

oil sources hold a huge potential. Venezuela's belt of heavy oil—a substance more like coal than oil, but more expensive to refine—contains an estimated 1.3 trillion barrels. That is more than the entire world's known reserves of crude oil.

"There certainly is a need for a Western Hemispheric alliance," said G. Henry Schuler, director of the Center for Strategic and International Studies' energy section. "There are advantages for us and our trading partners in the hemisphere."

Many trade and energy experts believe continental federations are the wave of the future. They envisage Europe fueled by itself; Japan fueled by the Far East; and the United States fueled by the Americas.

But all three economic blocs would also continue to rely on the Middle East.

In terms of energy, a vibrant trade relationship in the Western Hemisphere already exists. The United States buys virtually all of the oil exported by Venezuela, Canada and Mexico.

These three countries provide 33 percent of the oil that the U.S. imports.

In addition, Venezuela and Brazil sell sizable quantities of gasoline to the United States, while Canada supplies increasing amounts of natural gas and electricity to U.S. consumers.

The nations' energy companies are becoming integrated as well. Exxon Corp. and Amoco Corp., among other U.S. firms, own big subsidiaries in Canada.

Meanwhile, Petroleos de Venezuela S.A., Venezuela's national oil company, owns Citgo Petroleum Corp. and an independent refinery in the United States.

The next linkup may be between U.S. oil companies and the Mexican national oil company, Petroleos de Mexico S.A. In November, Mexico accepted a \$1.5 billion loan from the United States to build up its oil production.

In return, Mexico indicated it might allow U.S. firms to drill for oil.

Should the arrangement succeed, trade experts say it would better the chances of an overall bilateral trade agreement.

THE BEGINNING OF THE END FOR OIL

There's no longer any doubt that the Middle East cannot be relied on for petroleum. The world will intensify the search for alternatives—and natural gas will lead the pack. ■ by Peter Nulty

THE CONFRONTATION in the Persian Gulf conjures a host of horrible prospects: Shuttered factories. Gasoline lines. Blood in the sand. It might not come to that, of course. Iraq could yet withdraw from Kuwait, stabilizing oil prices and the world economy. But even if this crisis goes no further, even if the troops come safely home, even if the price of oil soon falls, Iraq's invasion of Kuwait will be remembered as the beginning of the end of the Age of Oil.

REPORTER ASSOCIATE Alan Deutschman

A historic shift is in the air. Disorder in the Persian Gulf is looking more like the norm than the exception. Policymakers and executives around the globe are asking, in the words of Jack Bowen, chairman of Transco Energy, a Houston natural gas and pipeline company, "What does this stuff really cost? Is it the price OPEC gets? Or is it OPEC's price plus trade deficits, unemployment, inflation, and higher military expenditures?"

The lesson has been driven home for good: You just can't count on Mideast oil. The world will most likely respond with a concert-

ed hunt for alternatives, starting with non-OPEC oil. That's logical, because the dark goo that provides 39% of the world's energy, more than any other source, will be a staple of the global economy for decades. Neither coal, which is the second-largest energy provider with 28%, nor natural gas, with 21%, can quickly replace oil, particularly as a transportation fuel.

But explorers aren't likely to find enough new oil to make OPEC a nonfactor in world energy. After the oil price spikes of the Seventies, the industry mounted a rig-spinning



Many countries will now strive harder for energy independence from OPEC. This exploration crew on a prayer break is in Oman—not a member of the cartel.

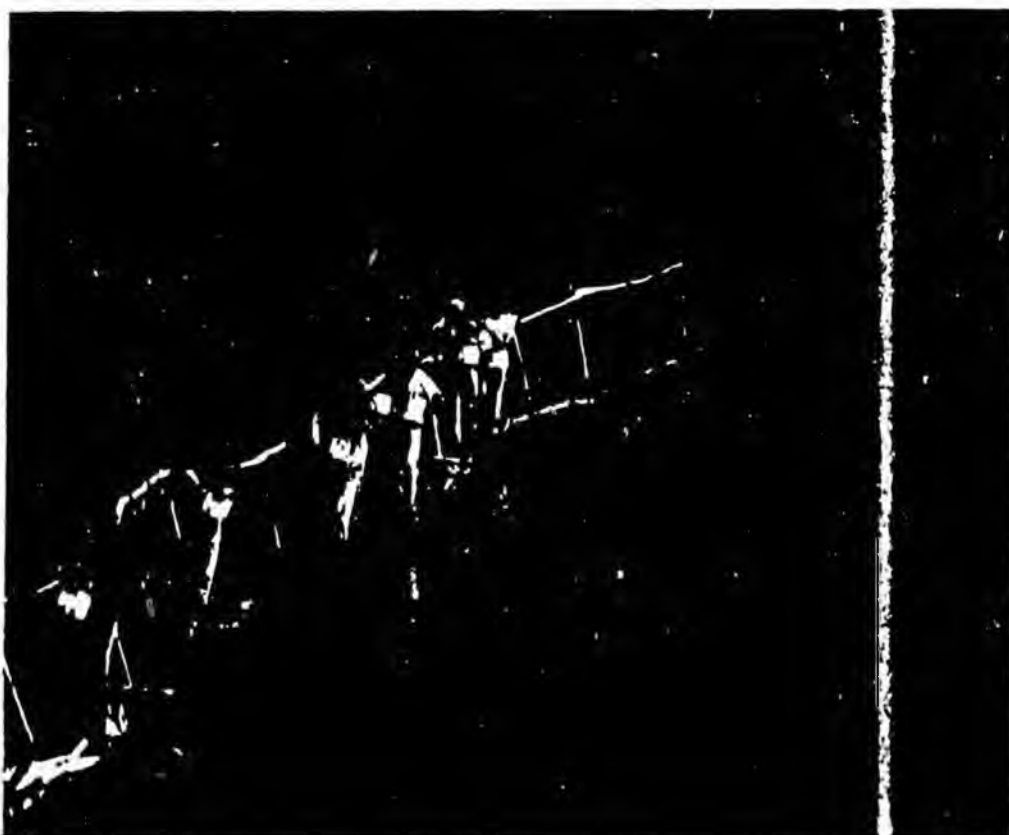
**OIL vs. GAS:
WHO HAS THE MOST**

exploration and development campaign outside OPEC that produced new supplies, mainly in Mexico, Alaska, and the North Sea. This production, together with conservation, brought the cartel and oil prices low in 1986. But then demand revived, and non-OPEC oil production—the preferred barrels—couldn't keep pace. When oil-consuming nations wanted growth, they had to draw once more from the wells of OPEC. And they have been returning in such numbers recently that the cartel's spare capacity has dwindled from 12 million or 13 million barrels a day in the mid-Eighties to four million.

Thus governments and consumers will probably become more willing to pay a premium for non-oil energy, such as natural gas and coal, within their own borders. Their goal: maximum control of their energy futures. The most likely consequence: a long, slow ascendance of natural gas, which most experts believe is more plentiful than oil and more evenly distributed around the globe.

How quickly oil will lose favor and eventually market share, depends on the outcome in the Persian Gulf. A United Nations embargo against Iraq and Kuwait, if effective, will remove about four million barrels of crude and refined products a day from a world market that consumes about 65 million barrels a day. Most experts believe there is enough spare capacity in countries like Saudi Arabia, the United Arab Emirates, and Venezuela to make up the shortfall. To avoid get-

Explorers will soon begin scouring the last great frontiers for oil and gas. Seismic workers like these in Alaska (left) and northern Sumatra use sound waves to map underground formations.



| SHARE OF WORLD RESERVES IN . . . | OIL | GAS |
|----------------------------------|-------|-------|
| Middle East | 65.2% | 30.7% |
| Latin America | 12.5% | 5.8% |
| U.S.S.R. and Eastern Europe | 5.9% | 38.3% |
| Africa | 5.9% | 6.7% |
| Asia* | 4.5% | 7.1% |
| North America | 4.2% | 6.5% |
| Western Europe | 1.8% | 4.9% |

* Includes Australia and New Zealand

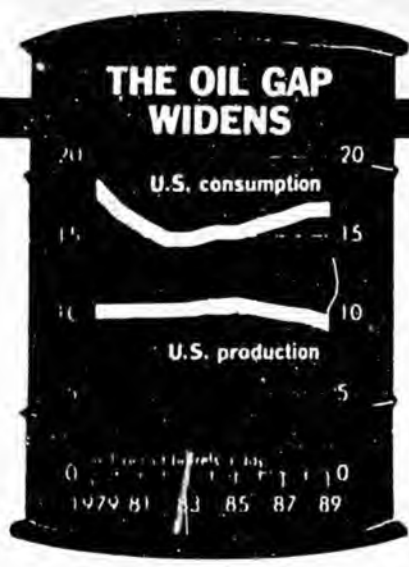
ting caught with an empty tanker in the resulting dislocations, oil companies are bidding up the price of crude. Says Ted Eck, chief economist for Amoco: "We're not thinking about price; we are focusing on feedstock." Prices may bounce around between \$25 and \$30 per barrel until the kinks are worked out.

AFTER THAT, there are roughly two possible outcomes. The first is a relatively uneventful siege of Iraq, followed by a peaceful resolution and return to the status quo—that is, to explosive ethnic and religious competition. During this time prices should settle in the low to middle 20s, according to Dennis Eklof, a senior consultant in the consulting firm Cambridge Energy Research Associates. Once peace is restored, however, prices are not likely to return to the pre-August \$14 range. Those prices owed much to OPEC members' cheating on their quotas. Tiny Kuwait and the Emirates, the worst miscreants in the eyes of the cartel, won't resume such practices lightly.

The second possibility is that a shooting war breaks out, disrupting Saudi Arabia's five million barrels a day of production, or the Emirates' two million barrels, or both. This would create the world's first serious crude-oil shortage since World War II and drive prices to unknowable heights. (In the oil crises of 1974 and 1979, supply and demand remained nearly in balance. It was the fear of shortage, which led to miscalculated government allocation rules and to such panic stockpiling as topping off the tanks of automobiles, that drove prices up.) Neither outcome to the present mess is likely to restore confidence in Persian Gulf oil.

So what should the U.S. do? Once the world's greatest oil producer, the U.S. is aging rapidly as an oil power. Production fell 6% last year, and imports account for around 50% of our needs, compared with

THE OIL GAP WIDENS



less than 30% in 1985. The U.S. is the most drilled-up land on earth, with 600,000 of the world's 900,000 producing wells. An average well produces about 15 barrels a day in the U.S., vs. 9,000 barrels a day in Saudi Arabia.

Stopping the growth of dependence on foreign oil will not be easy, as experience shows. When oil prices leaped in the Seventies, they set off a drilling boom that employed almost five times as many rigs (about 4,500) as are working today. That effort, along with prior discoveries in Prudhoe Bay, was barely able to lift U.S. production 4% between 1979 and 1985, after which production began falling again. The chances of reversing the decline in production and expanding output today are even more remote. Doing so would probably require the discovery of gigantic new reserves several times larger than Prudhoe Bay.

HOW CAN the U.S. reduce its dependence on foreign oil? There's no mystery: increasing exploration and development, stepping up conservation, and switching to alternative fuels. Every bit would help. Last year the U.S. used 16.5 million barrels a day, on average, and produced 9.2 million—600,000 barrels a day less than in 1988. Replacing that oil from abroad at today's prices would add over \$5 billion to the trade deficit of some \$95 billion this year.

All those calls we keep hearing for an en-

ergy policy numb the ears, but they are right. The question is: what policy changes would really do the trick? The Department of Energy is drafting a list of options known as the national energy strategy for delivery to President Bush by year-end. Before that, it would make sense—and break fresh ground—to assem-

ble a team of experts from Congress, the Environmental Protection Agency, the Energy Department, environmental groups, and energy companies to synthesize a strategy that addresses both the environment and energy.

Call it an *enenergy* policy. After the *Exxon Valdez* accident last year, environmentalists beat back an industry attempt to open the Arctic National Wildlife Refuge and the outer continental shelf to oil and gas exploration. The inevitable result will be more oil imported in tankers that may be less safe than oil and gas wells. Now, with conflict in the Gulf and rising oil prices, environmentalists are understandably afraid the tide will turn against them.

Step back from the rush of today's news, and it becomes clear that the nation needs to upgrade both energy supplies and environmental quality. But that's tough to do when policy is being whipsawed between cataclysmic events. An *enenergy* policy would put us all on the same track. It might recommend, for instance, drilling the outer continental shelf because it contains mostly gas, the cleanest-burning fossil fuel, which won't befoul beaches in the event of a leak. Here are some policies for an *enenergy* team to consider:

■ **Attack transportation.** Cars and trucks burn some eight million barrels of oil a day, almost equal to total imports. Several measures could help reduce that. First, promote natural gas as a fuel for fleets of cars and

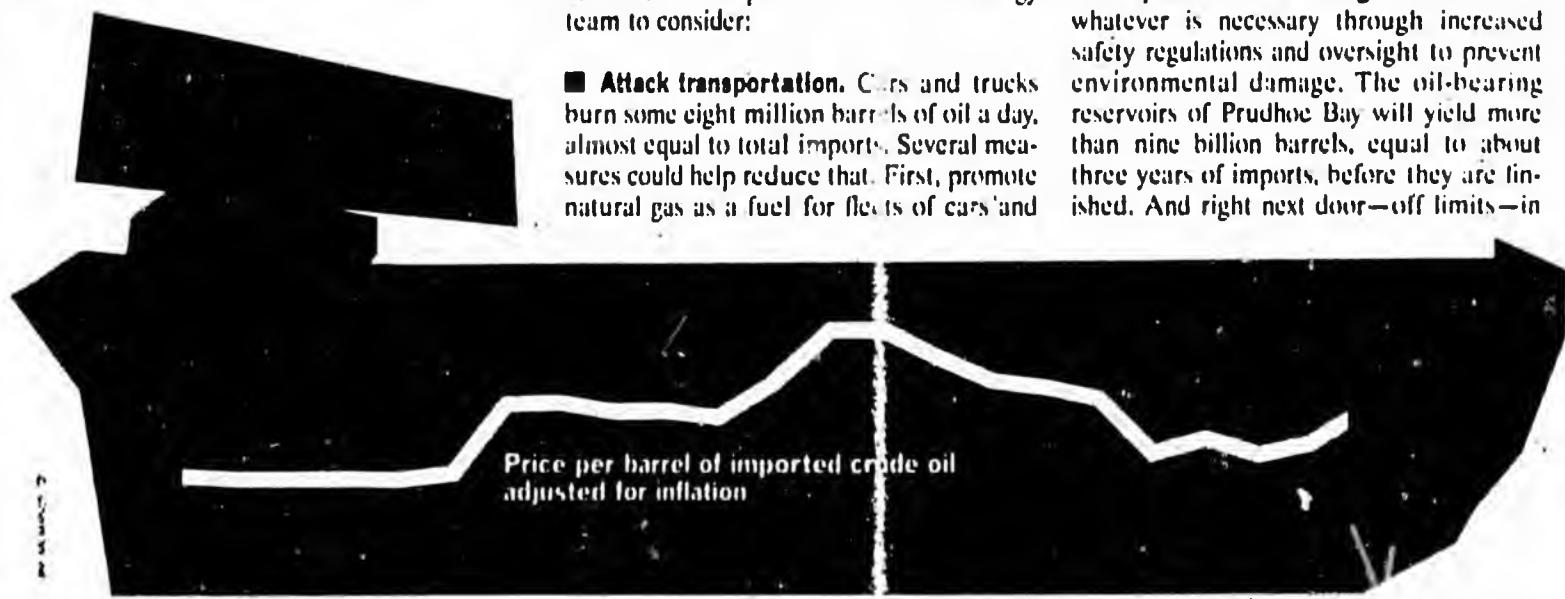
trucks (not including commercial rentals), which make up about 5% of the nation's vehicles. Switching to natural gas would be tough for most motorists: Even if you could buy a natural gas car, you couldn't find a service station to refuel it (unless you are in Denver, where Amoco recently opened a station with a natural gas pump it hopes will attract daring converts). But fleet garages can be equipped with the compressors and hoses used to refuel with natural gas. General Motors promises to produce 1,000 gas trucks a year by 1992, and several companies, including United Parcel Service and Brooklyn Union Gas, are converting some of their fleets to gas. If UPS and the post office refueled their fleets, 255,000 vehicles in all, it would save almost ten million barrels of oil a year, more than one day's imports.

Second, improve the gasoline efficiency of cars. Corporate average fuel economy (CAFE) standards imposed by Congress helped push the nation's miles per gallon from 14 to 28. Dennis Eklof of Cambridge Energy estimates this saves the U.S. about two million barrels of oil a day, roughly the production of Kuwait.

Another route to conservation might be to raise the tax on gasoline, which varies state to state and averages about 27 cents a gallon, the lowest in the developed world. The tax in Japan is \$1.62 a gallon, in Italy \$3.08. Raising the tax would be least painful, and perhaps most effective in the long run, if the federal government committed itself to raising it, say, 5 cents a year for the next 20 years. That leaves everyone plenty of time to plan and adjust.

■ **Explore the remaining frontiers.** Do whatever is necessary through increased safety regulations and oversight to prevent environmental damage. The oil-bearing reservoirs of Prudhoe Bay will yield more than nine billion barrels, equal to about three years of imports, before they are finished. And right next door—off limits—in

Price per barrel of imported crude oil adjusted for inflation



* As of August 14.

the wildlife refuge are similar underground formations in the same geologic trend. Not to explore them is shortsighted. Other frontiers exist off the shores of California and Florida.

■ **Reduce regulatory delays.** Bowen of Transco recommends creating a fast track for priority energy projects, shortening the time spent on hearings and public review and allowing some projects to move ahead even as issues are thrashed out in court. Off Southern California is an oil field called Point Arguello that should yield at least 200 million barrels. Chevron has drilled production wells but for a year has not been allowed to produce oil by order of the California Coastal Commission.

■ **Promote natural gas.** One of the quickest ways to do this would be to speed up certification of new pipelines by the Federal Energy Regulatory Commission. In New England many businesses that burn gas in the summer must switch to imported fuel oil in the winter because pipelines into the region can't handle any more gas. New lines, such as the Iroquois project, which would bring gas from Canada, have been winding their way through the regulatory process for four years. The American Gas

Association, a trade group, says that within five years new gas pipelines could eliminate the need for 1.3 million barrels of oil a day, about 15% of today's imports.

■ **Boost research into alternative energy sources.**

Europe and Japan make more use of nuclear power (see table) than the U.S. Plant designers are tinkering up much safer technologies, which must be tested and refined. In one compact design the reactor building is capable of absorbing all the heat the reactor can emit in the event of a cooling system failure. More research is needed into safe means of disposing of spent fuel. Argonne National Laboratory near Chicago is studying techniques for reducing its radioactive life. Fusion reactors, which will produce almost no waste, will need at least two decades of additional development. If nuclear power can be made safe, then electric cars using power generated by nuclear stations would solve many of today's problems.

■ **Expand the Strategic Petroleum Reserve.** It contains almost 600 million barrels of crude and is scheduled to expand to 750 million. The SPR's 70 days' supply of

WHERE THE ATOM BULKS BIG

Nuclear energy as a portion all energy consumed

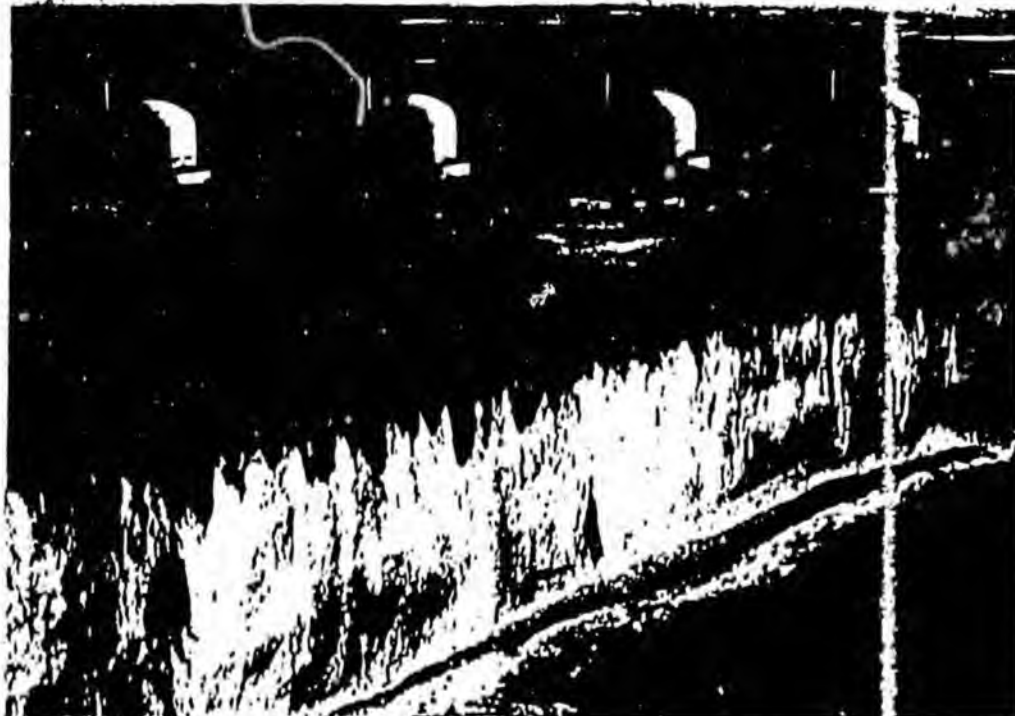
| | |
|--------------|-------|
| Sweden | 31.6% |
| Franco | 29.7% |
| Taiwan | 15.0% |
| West Germany | 12.6% |
| Japan | 11.1% |
| U.S. | 7.2% |

imported oil may be one of the reasons prices didn't fly up the way they did in the aftermath of the Iranian revolution and the start of the Iran-Iraq war a decade ago. Additional supplies should be even more stabilizing. In the debate that broke out over how the SPR should be used, some politicians urged the President to open the tap to keep consumer prices from rising. Others said it should be used only to compensate for a real fall in oil supplies. In the present dispute, with the possibility of a war in the Gulf that could create monumental shortages, the President is wise to keep the reserves in check.

MANY NATIONS will be considering similar options in the years ahead, and their collective actions will likely change the face of the energy business. A consequence to watch for: The oil industry will embark on its last great elephant hunt, the pachyderms being huge oil fields. Explorers at British Petroleum estimate that the earth holds about 1,300 sedimentary basins in which oil might be found, of which 300 remain unexplored because they were too remote or because politics placed them off limits. Both conditions are changing. Technology is bringing far-off basins, such as those in ocean depths of up to a mile, within reach. (Instead of production platforms standing on the ocean floor over the wells, pipelines would gather the crude from these deep wells and transport it to platforms in shallower waters.) And countries like Vietnam and Argentina that have kept oil and gas explorers at arm's length are beginning to open up in the hope of developing their own energy sources.

For decades predictions in the oil business have been followed by caveats like "If anyone invades the Saudi oil fields, all bets are off." When the present confrontation is over, even if the good guys win, it's a safe bet that the caveats won't go away. This isn't the last crisis in the Persian Gulf. That fact, and the world's reaction to it, will shape the energy business for years to come. □

Nuclear power plants like this one near Dieppe generate 70% of France's electricity. The U.S. gets only 20% of its juice from nukes, and the figure won't increase soon: No utility plans any new nuclear plants.



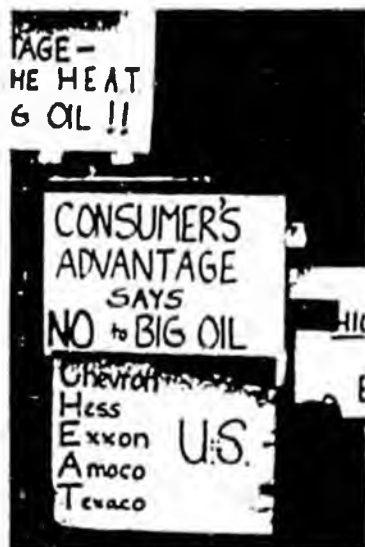
GAS PUMP ECONOMICS 101

Many blame greedy Big Oil for the swift rise of gasoline prices. The real explanation is more interesting. ■ by Joe Dreyfuss

THE MOST immediate and important effect of the Mideast turmoil for many Americans is at the gas pump. Higher prices are infuriating and often baffling. Says Marty Nyvall, Amoco Oil's manager of marketing: "For the average consumer, this whole area is mysterious." Herewith, answers to basic questions about gas pump economics:

■ **Why did gas prices go up so fast?** It's hard to blame consumers for wondering why they should pay 10 to 20 cents more a gallon just days after Iraqi tanks rolled into Kuwait City—the oil companies were selling gasoline made from old, cheap crude, weren't they? "They'd convince me better if they told me sunspots did it," says Tim Hamilton of AUTO, an organization of independent gasoline dealers in Washington State.

The real answer is a combination of accounting and price-setting practices for crude oil. The last-in first-out method of accounting for inventory that most U.S. oil companies use causes them to price products according to the cost of replacing them, not according to historical cost. *REPORTEUR ASSOCIATE Jessica Matheson Bunchel*



A tempting target, but the wrong one

son: When it's time to figure profit for a given quarter, the cost of the most recently purchased oil is what gets subtracted from revenues. Since that cost went up quickly, oil companies must increase revenues quickly as well to maintain profit margins.

Selling this to the public may be a losing battle, but former Mobil spokesman Herbert Schmetz thinks the industry should try. Says he: "What the oil companies have not adequately explained is that in a market economy, you have to price at replacement cost."

Those costs rose almost instantly after the start of hostilities because crude pricing has changed since the oil shocks of the 1970s and the emergence of the futures market in oil in the 1980s. "In the past, such foreign crude was bought on a contract basis," says Amoco's Nyvall. Now 80% of the time, the price isn't set until a tanker completes the four- to six-week journey from the Middle East. So refiners' costs went up the minute news of Iraq's invasion flashed around the world—even though the oil they were receiving had been pumped weeks earlier.

■ **Why did gasoline prices rise so much?** They didn't. A barrel of oil contains 42

gallons. So each dollar-per-barrel increase in the price of crude translates into about 2½ cents more per gallon. Since May, when anticipation of OPEC's midyear meeting started prices up, the cost of crude has risen \$10 per barrel. To completely cover this increase, oil companies would have had to raise prices 25 cents per gallon. But competition and consumer resistance have kept most increases well below this. Chevron Chairman Kenneth Derr says, "We are woefully underrecovering our costs."

■ **Who wins and who loses from the price rise?** The clearest winners are those who explore for and produce crude. Their costs don't rise and they are profiting from the sudden drop in overall output.

Refiners are a more complex case. They profit most on the rare occasion when the cost of crude is declining and prices of refined products are soaring because of tight supply. They're squeezed now because competition keeps prices of refined products from rising as much as crude oil has. Average margins on refined products made from high-quality crude climbed to a 1990 high of \$4 a barrel in mid-July, according to estimates by *Petroleum Intelligence Weekly*. But when crude prices turned back up, these margins shrank swiftly. By mid-August they had sunk as low as \$1.89 a barrel.

If prices stabilize, refiners' profits should fatten again. The integrated companies that produce oil, refine it, and retail the resulting products will on balance come out ahead. The losers: gas station owners who are restrained by competition—and of course their wrathful customers. □

PRICE AT THE PUMP: WHERE THE MONEY GOES...

...At \$1.10 a gallon Based on a crude oil price of \$18 a barrel



Old price
\$1.10

wholesaler 2¢ retailer 6¢

...At \$1.28 a gallon Based on a crude oil price of \$24 a barrel



New price
\$1.28

wholesaler 4¢ retailer 5¢

SOURCES: OIL INDUSTRY EXPERTS, FORTUNE ESTIMATES

SCORECARDS ON THE OIL GIANTS

The U.S.-led embargo of Iraq and Kuwait, which together produced 20% of OPEC's crude exports last year, will jolt some of the world's leading oil companies and enrich others. Starting on this page are ten scorecards comparing the top companies doing business in the U.S., the world's largest market for oil and the biggest importer as well. These goliaths aren't accustomed to changing their sources of crude from month to month, but some will have to

while the crisis lasts. Hardest pressed may be those most reliant on Iraqi oil, but all Persian Gulf supplies, even from friendly Saudi Arabia, are in jeopardy from the hostile troops massed along the Kuwaiti-Saudi border. As petroleum prices rise, the big profits will go to companies that produce high percentages of the crude their refineries need—and in the long run, to those like Amoco with substantial reserves of natural gas. ■ *by Susan Caminiti*



Exxon (U.S.)
 REVENUE: \$86.6 billion
 PROFIT: \$3.5 billion
 PROVED RESERVES: 6.6 billion bbls.
 SHARE PRICE:
 12-mo. high: 55^{1/8} low: 43^{1/8}
 recent: 52^{3/8} P.E.: 17

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 52%

SOURCES OF CRUDE IMPORTED TO U.S.:

22% OPEC (all from Persian Gulf)
 29% Angola 16% Colombia
 16% Oman 17% Other

COMPANY OUTLOOK: Profits sagged after a \$1.7 billion write-off for the Valdez spill... Over a fifth of its U.S. imports come from Persian Gulf OPEC members... Formidable even so... Says CEO Lawrence Rawl: "Current supplies are adequate, but shortages could occur if shortfalls in Iraq and Kuwait are not replaced."



Royal Dutch/Shell (U.K.)
 REVENUE: \$85.5 billion
 PROFIT: \$6.5 billion
 PROVED RESERVES: 9.1 billion bbls.
 SHARE PRICE:
 12-mo. high: 87 low: 63^{1/8}
 recent: 83^{3/8} P.E.: 13

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 52%

SOURCES OF CRUDE IMPORTED TO U.S.:

51% OPEC (22% of total from Iraq)
 11% Mexico 6% Canada
 1% Yemen 2% Other

COMPANY OUTLOOK: Owns the world's largest proved reserves of oil and natural gas liquids, much located in the U.S... Some offshore rigs in the North Sea are shut down for summer maintenance, temporarily halting their production... A big plus: rapidly expanding natural gas production in Britain.

* Share figures are for Royal Dutch Petroleum, which owns 60% of Royal Dutch/Shell. Shell Transport & Trading owns the other 40%.

Mobil

Mobil (U.S.)
 REVENUE: \$51 billion
 PROFIT: \$1.8 billion
 PROVED RESERVES: 2.6 billion bbls.
 SHARE PRICE:
 12-mo. high: 69^{1/8} low: 51^{1/8}
 recent: 67^{1/8} P.E.: 15

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 39%

SOURCES OF CRUDE IMPORTED TO U.S.:

33% OPEC (12% of total from Iraq)
 32% Canada 11% U.K.
 24% Mexico

COMPANY OUTLOOK: Crude poor but has extensive natural gas holdings... Says security analyst William Randot of First Boston: "Companies like Mobil might whisper in policymakers' ears about natural gas as an oil alternative..." Has a lucrative chemicals sideline that makes commodity goods and hefty trash bags.



British Petroleum (U.K.)
 REVENUE: \$49.5 billion
 PROFIT: \$3.5 billion
 PROVED RESERVES: 4.9 billion bbls.
 SHARE PRICE:
 12-mo. high: 82^{1/8} low: 54^{1/8}
 recent: 80^{1/8} P.E.: 13

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 68%

SOURCES OF CRUDE IMPORTED TO U.S.:

85% OPEC (all from Nigeria)
 1% U.K. 2% Zaire
 1% Colombia

COMPANY OUTLOOK: Scant exposure to Persian Gulf... Big buyers of Nigerian light crude... Says BP Oil's general manager, Lee Atkinson: "We would not describe the current situation as a supply crisis, nor is one imminent. Other producers can make up the supply that had been coming out of Iraq and Kuwait."

Financial and reserve data for fiscal 1989; share data as of 8/13/90, with P/E reflecting latest four quarters ending June 30; U.S. crude imports for May 1990.

* Share figures are for ADRs of British Petroleum.



Texaco (U.S.)
 REVENUE: \$32.4 billion
 PROFIT: \$2.4 billion
 PROVED RESERVES: 2.3 billion bbls.
 SHARE PRICE:
 12-mo. high: 68^{1/2} low: 49^{3/8}
 recent: 63^{1/2} P.E.: 14

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 121%

SOURCES OF CRUDE IMPORTED TO U.S.:

97% OPEC (92% of total from Saudi Arabia)
 3% Egypt

COMPANY OUTLOOK: Flush with crude... Its joint venture with Saudi Arabia in Star Enterprise has the right to buy 600,000 barrels per day of Saudi oil... Management is minding the store again after long battle with investor Carl Icahn... Says Todd L. Bergman, security analyst at Goldman Sachs: "I expect to see a big increase in cash flow and more emphasis on exploration."



Chevron (U.S.)
 REVENUE: \$29.5 billion
 PROFIT: \$251 million
 PROVED RESERVES: 2.8 billion bbls.
 SHARE PRICE:
 12-mo. high: 81^{3/8} low: 53^{1/4}
 recent: 78^{1/8} P.E.: 43

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 45%

SOURCES OF CRUDE IMPORTED TO U.S.:

51% OPEC (26% of total from Persian Gulf)
 29% Mexico 3% China
 11% Norway 7% Other

COMPANY OUTLOOK: Chevron has shifted from Persian Gulf crude to more from Mexico, and holds reserves of domestic natural gas and heavy oils... Wrote off \$1.2 billion in 1989, partly as a result of environmental concerns that led regulators to bar production from offshore wells near Santa Barbara, California.



Amoco (U.S.)
 REVENUE: \$24.2 billion
 PROFIT: \$1.6 billion
 PROVED RESERVES: 2.7 billion bbls.
 SHARE PRICE:
 12-mo. high: 60^{3/8} low: 45^{1/8}
 recent: 56^{1/2} P.E.: 19

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 76%

SOURCES OF CRUDE IMPORTED TO U.S.:

48% OPEC (23% of total from Persian Gulf)
 18% Canada 7% Norway
 15% Mexico 12% Other

COMPANY OUTLOOK: Largest nongovernment owner of natural gas reserves in North America; sees future in that fuel—at least in the U.S.... Says H. Laurance Fuller, president: "I've seen crude prices at all levels. I can say that we won't be making substantial changes in our strategy in the near future because of Iraq."



USX (U.S.)
 REVENUE: \$17.7 billion
 PROFIT: \$965 million
 PROVED RESERVES: 764 million bbls.
 SHARE PRICE:
 12-mo. high: 39^{1/2} low: 31^{1/2}
 recent: 32^{1/4} P.E.: 11

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 38%

SOURCES OF CRUDE IMPORTED TO U.S.:

31% OPEC (all from Persian Gulf)
 25% Mexico 11% Canada
 15% U.K. 17% Other

COMPANY OUTLOOK: The steelmaker that bought Marathon Oil still gets 30% of revenues from steel... 7% of its U.S. imports come from Iraq... Expects to make up the shortfall with purchases from U.S. independents or on spot market, but that won't be cheap... Well positioned in the Brae oil fields of the North Sea.



Atlantic Richfield (U.S.)
 REVENUE: \$15.9 billion
 PROFIT: \$1.9 billion
 PROVED RESERVES: 3 billion bbls.
 SHARE PRICE:
 12-mo. high: 140^{3/8} low: 95^{1/2}
 recent: 136^{3/4} P.E.: 13

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 177%

SOURCES OF CRUDE IMPORTED TO U.S.:

63% OPEC (51% of total from Persian Gulf)
 15% Mexico 8% U.K.
 8% Columbia 6% Other

COMPANY OUTLOOK: Rising price of crude means increased profits for oil-rich Arco... Produces oil in Alaska and Texas... Exposed to Middle Eastern tumult only through its 49.9%-owned Lyondell Petrochemical, a \$5.3-billion-a-year refiner that imports the bulk of its crude, over 200,000 barrels per day.



Phillips Petroleum (U.S.)
 REVENUE: \$12.5 billion
 PROFIT: \$219 million
 PROVED RESERVES: 991 million bbls.
 SHARE PRICE:
 12-mo. high: 31^{1/8} low: 21^{3/8}
 recent: 28^{1/8} P.E.: 54

WORLDWIDE SELF-SUFFICIENCY IN CRUDE: 88%

SOURCES OF CRUDE IMPORTED TO U.S.:

45% OPEC (23% of total from Saudi Arabia)
 47% Angola 8% Oman

COMPANY OUTLOOK: No U.S. imports from Iraq or Kuwait... Produces almost 90% of its refinery needs... Like Chevron, Phillips is barred from pumping oil from its offshore California field, causing a \$280 million write-down in 1989... Expect the company to invest any increased cash flow from higher crude prices in its promising U.S. and Canadian natural gas operations.

WHERE THE OIL FLOWS

The world's major crude oil importers and exporters—and who gets what from whom.

OPEC member
 Importer
 Exporter

| NORTH AMERICA | | |
|-----------------------------------|----------------|---|
| EXPORTERS | | Proved reserves (billions of bbls.) |
| Annual amount (billions of bbls.) | Main markets | |
| MEXICO | 497 | U.S. 52%, Spain 16%, Japan 13%, France 5%, Brazil 2% |
| CANADA | 256 | U.S. 96%, Japan 0.7%, Netherlands 0.2% |
| IMPORTERS | | Imports as a % of total consumption |
| Annual amount (billions of bbls.) | Main suppliers | |
| U.S. | 2,421 | Saudi Arabia 18%, Nigeria 12%, Mexico 12%, Canada 11%, Venezuela 10%, Iraq 7%, U.K. 3%, Indonesia 2%, Kuwait 2% |



| SOUTH AMERICA | | |
|-----------------------------------|----------------|--|
| EXPORTERS | | Proved reserves (billions of bbls.) |
| Annual amount (billions of bbls.) | Main markets | |
| VENEZUELA | 382 | U.S. 44%, N. Antilles 15%, W. Germany 9%, Canada 3% |
| ECUADOR | 72 | S. Korea 33%, U.S. 23%, Puerto Rico 16%, Panama 5% |
| COLOMBIA | 54 | N.A. |
| ARGENTINA | 3 | N.A. |
| IMPORTERS | | Imports as a % of total consumption |
| Annual amount (billions of bbls.) | Main suppliers | |
| BRAZIL | 233 | Iraq 38%, Saudi Arabia 22%, Iran 9%, Nigeria 6%, Kuwait 5% |
| CHILE | 30 | N.A. |



| AFRICA | | |
|-----------------------------------|--------------|--|
| EXPORTERS | | Proved reserves (billions of bbls.) |
| Annual amount (billions of bbls.) | Main markets | |
| NIGERIA | 454 | U.S. 49%, Spain 11%, W. Germany 8%, France 7%, Netherlands 6% |
| LIBYA | 312 | Italy 36%, W. Germany 26%, Spain 10%, France 9%, Greece 8% |
| ANGOLA | 152 | N.A. |
| EGYPT | 145 | N.A. |
| ALGERIA | 80 | Italy 33%, Spain 15%, W. Germany 14%, U.S. 10%, France 7% |
| GABON | 49 | France 31%, Netherlands 27%, Brazil 11%, U.S. 10%, S. Korea 3% |



| MIDDLE EAST | | |
|-----------------------------------|--------------|--|
| EXPORTERS | | Proved reserves (billions of bbls.) |
| Annual amount (billions of bbls.) | Main markets | |
| SAUDI ARABIA | 1,363 | U.S. 25%, Japan 14%, France 6%, Bahrain 5%, Singapore 5% |
| IRAQ | 823 | U.S. 16%, Brazil 11%, Turkey 11%, Japan 8%, U.S.S.R. 7% |
| IRAN | 564 | Netherlands 14%, Japan 12%, Italy 9%, Turkey 7%, Belgium 7% |
| U.A.E. | 500 | Japan 47%, Italy 7%, Singapore 7%, U.S. 5%, S. Korea 5% |
| KUWAIT | 279 | Japan 27%, Netherlands 17%, U.S. 12%, Italy 9%, Brazil 4%, S. Korea 4% |
| QATAR | 107 | Japan 58%, France 11% |

OIL PRICES WON'T BRING A RECESSION

Yes, the economy is fragile, but pessimistic forecasters have learned the wrong lessons from the past. The jump this time doesn't compare with the earlier ones. ■ by Todd May Jr.

HIGHER OIL prices have raised simmering worries about the economy to a boil. The small band of forecasters who expect recession—some say a downturn started last spring—is growing and getting a lot of attention in the press. But the Middle East events that have raised uncertainty to nerve-jangling heights do not spell doom. FORTUNE's judgment remains basically the same as in our midyear 18-month forecast: Despite lots of slow-growth discomfort and nail biting, no recession before at least the end of 1991. Inflation will get worse—but oil will be the least of the reasons.

A common mistake is to draw the wrong lessons from the past. The 1973 and 1979 oil shocks that ushered in recession and inflation were much bigger relative to the economy than this one is so far. Many pessimistic discussions measure the \$25-a-barrel U.S. price of imported oil reached in mid-August against the transient low of around \$14 in

OVERVIEW

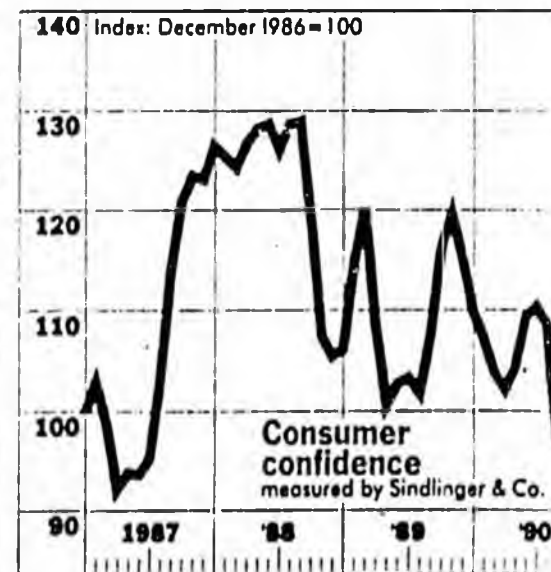
- Inflation will climb to over 5% this year.
- Consumers will keep expenditures growing at only a moderate rate.
- Businesses will continue to lift capital spending.

July (see chart, next page). Instead, you should weigh the new prices against those that had been generally expected before the Iraqi invasion. FORTUNE was looking for close to \$19 by the end of this year and \$21 by the end of 1991. So the Iraqis have added about \$5 to the cost of oil for the rest of this year and even less next year. Nothing is certain in the volatile Middle East, but the

most prudent assumption is that once the promised additional production is pumped, the price will settle close to the current level, perhaps after going a bit higher before the increased flow has started. With U.S. oil consumption at 6.3 billion barrels a year, a \$5 increase would add \$30 billion to the cost of oil, the equivalent of 0.5% of nominal GNP. That will produce a much smaller jolt to inflation and growth than the increases in 1973-74 (2% of GNP), in 1979 and 1981 (1.5%), and 1980 (2.4%).

The economy is weaker this time, to be sure, but that has its bright side: fewer excesses waiting to be corrected. For example, consumer spending was rising at a rapid 4% pace just before all the earlier crises. But having already slowed to a moderate 1% to 2% in the past year, it is now sustainable.

Consumer confidence as measured by the Sindlinger & Co. index took a dive during



STALWART SPENDERS

Consumer confidence has taken a tumble, but not to a dangerous depth. Radio Shack customers are buying as before at stores everywhere, including this one in Torrance, California.

the week of the invasion and the week after. Sindlinger has shown much the same trends in the past as the Conference Board monthly index of consumer confidence, but is usually more volatile, perhaps because it asks only about personal outlooks and has a changing sample. Even taking the drop at face value, the early August number is still above the lows of 1987, when consumer spending barely stumbled.

Consumer attitudes will bear watching in the months ahead, but so far other measures confirm their relative buoyancy. Tandy Corp. receives daily reports from its 4,800 company-owned stores covering every city of 15,000 or more. Through mid-August, says Tandy Chairman John V. Roach, "there has been no change in customer volume, unit volume, or purchase size." Sales of domestic cars dropped to a 6.6 million annual rate in early August from the 7.1 million pace for July as a whole, but that's no lower than many ten-day periods in the past few months. Homebuilding has shrunk from the excessive pace of a few years ago, and single-family starts may even recover some in the months ahead.

Business spending for inventories, plant, and equipment is somewhat more problematic. With recession talk abounding, corporate officers could lean on the divisions to stretch out or delay capital projects. But they've heard dismal appraisals many times before during this long expansion without losing nerve. And mounting inflation will spur some investments before equipment costs go higher, especially when many manufacturing companies are striving to improve efficiency to meet tough competition.

Note well: Manufacturing capacity utilization is still a mite above the average for the past 20 years and only marginally below last year's peak. The accumulated stock of plant and equipment, a rough measure of capacity for the whole private economy, is growing only 2.7% a year, compared with over 4% in 1973 and 1979. The increase is just about in line with average output gains expected over the next several years: no big correction needed here. So capital spending in real terms will at least hold steady over the next few quarters and likely rise a bit.

An inventory cutback was already in the

CHIEF ECONOMIST *Judd Man Jr.*
SENIOR ECONOMIST *Victor Harnwell*
STAFF ECONOMIST *Joseph Spiers*
RESEARCH ASSOCIATES *Lanore Schiff* and *Lorraine Carson*

FORTUNE's forecast is produced by this magazine's economists using our own economic model.

FORTUNE'S BASIC OUTLOOK

- **Growth: Real GNP will expand 1.5% during both 1990 and 1991.**
- **Inflation: GNP price increases will climb from 4% during 1989 to 5.5% in 1991.**
- **Interest rates: Next year they will be up a percentage point from the spring lows.**

cards following the large buildup in the spring. In FORTUNE'S survey of inventory policy taken before the invasion, business wanted a slower and more manageable pace but wasn't planning any liquidation. Here again, any fear of recession will probably be offset by anticipation of higher prices for purchased goods and materials, as well as for the goods sold. As accumulation levels out in the fall, growing final demand will lift output slowly.

Thus real GNP will grow at a 1.5% annual rate or so this half. That's a half percentage point less than projected in our midyear forecast; the reason for the reduction is not just oil but also the Commerce Department's revision of earlier GNP data. The 1.5% pace will hold during 1991—only a slight improvement from the 1.2% of the past four quarters and well below the 2.7% in the year ended in mid-1989.

The recession forecasters are still in the minority. The Blue Chip Consensus forecast following the invasion predicts nearly the same growth FORTUNE does for the rest of this year and even foresees a 2.1% gain during 1991. Five of the 48 forecasters now predict the two consecutive quarters of decline in real GNP that is usually cited as the definition of recession. But that definition is erroneous. Though most recessions include at least two such quarters (the 1980 recession had only one), the National Bureau of Economic Research, the official arbiter in these

matters, examined a wide range of other figures in judging whether a recession has actually occurred and when.

One clear victim of the new jitters is the budget summit. We never thought the conferees would enact the \$50 billion package of tax increases and spending cuts they had talked about for fiscal 1991. At midyear \$35 billion seemed a more reasonable bet. Now \$20 billion appears most likely—and the \$15 billion swing in fiscal stimulus will offset a good chunk of the drain of oil prices (only half of which will escape the country).

FORTUNE expects the oil jolt to add no more than a half percentage point to the inflation rate this year, but then we were more bearish than most about the outlook before the lit hit Saddam. During the next few months inflation will probably reach an annual rate of 6% or more before subsiding. With profits already strained, many industries will pass along the costs before the year is out. So inflation in the broad GNP prices will average 5.2%, up from 4% in 1989. Next year flat oil prices, assuming no additional losses in production, will ease the pressure. But this year's rate will take a continuing toll, adding to the climb in hourly pay in 1991 and pushing companies to recoup these and other oil-induced hits on profits through higher prices. FORTUNE expects inflation at 5.5% next year, 1.5 percentage points higher than the current consensus.

With inflation running at such a rate, the Federal Reserve won't be swayed by slow economic growth. Nor will it worry much about a moderately weakening dollar. Once Chairman Alan Greenspan has clear evidence of higher sustained inflation, he will tighten.

Short-term interest rates have barely budged since the invasion—investors

have been parking their money while sorting out the prospects. As they do, short rates will rise—next year they will be a point or so above the spring lows. Long-term rates have less far to travel. Yields on the 30-year Treasury bonds had climbed about a half percentage point by mid-month and should go up somewhat further in the months ahead. The increase will be limited because the Fed's tightening will show investors that it is serious about fighting inflation. Slow growth and tight money is a formula guaranteed to keep anxieties on a high plane—but it beats any of the realistic alternatives. □

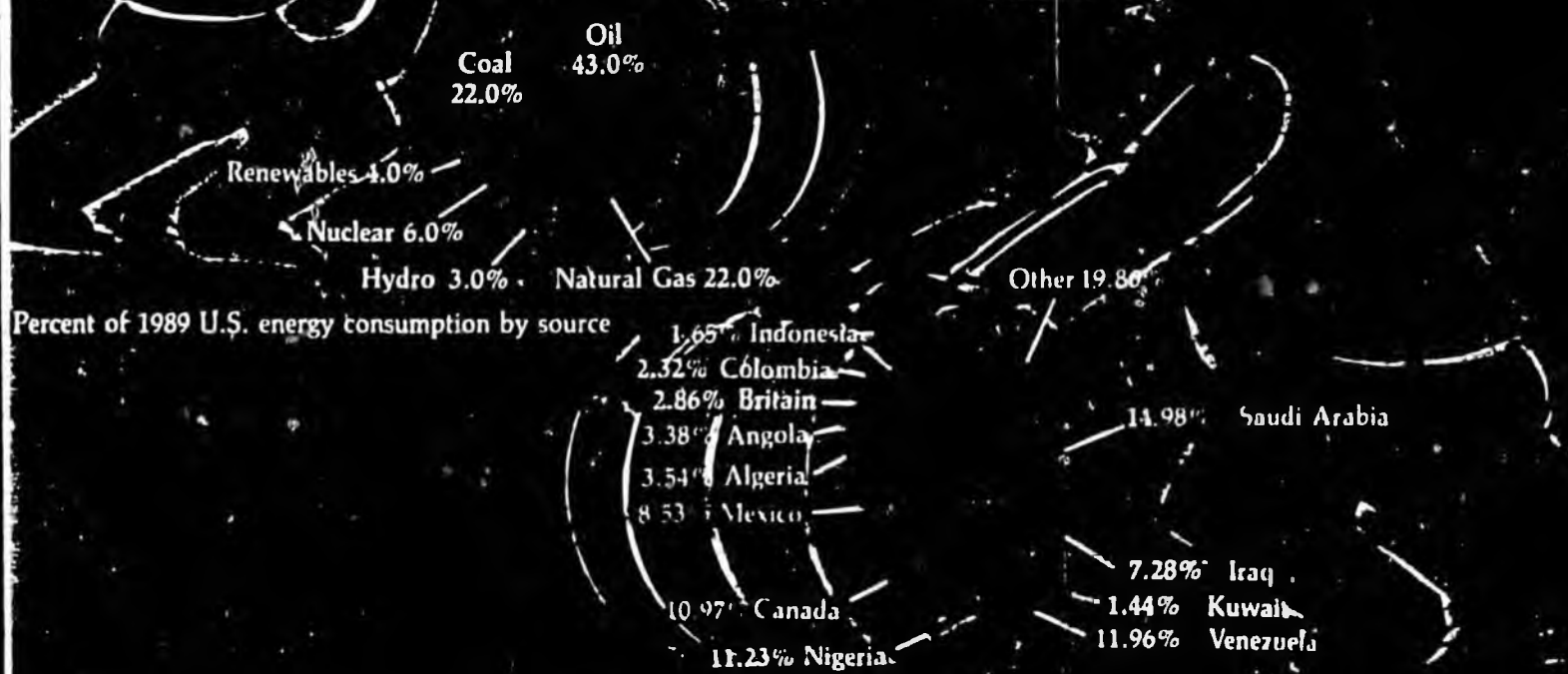


U.S. Economy Is Pumped by Oil

Share of imports in U.S. petroleum use



Percent of 1989 U.S. energy consumption by source



- 1.65% Indonesia
- 2.32% Colombia
- 2.86% Britain
- 3.38% Angola
- 3.54% Algeria
- 8.53% Mexico
- 10.97% Canada
- 11.23% Nigeria

- 14.98% Saudi Arabia
- 7.28% Iraq
- 1.44% Kuwait
- 11.96% Venezuela

Percent of U.S. imports of crude oil and products by country of origin, 1990*

The Next Move in the Energy Game

The federal government hasn't been able to come up with an energy policy, but there are plenty of good ideas in the states.

Paul Doyle

When Iraq invaded Kuwait and assembled troops on the Saudi Arabian border, the United States began to fear for its economic security, so dependent on oil. But with victory for our side, and oil prices falling, the incentive to develop an energy policy may be waning. Unfortunately, the problems remain.

- Saudi Arabia, Iraq and Kuwait contain roughly 45 percent of the earth's oil reserves and 20 percent of all current oil production capacity.
- The United States imports twice as much oil today as in 1973, the time of the first energy crisis.
- A record one-half of the 17 million barrels of oil used to run the U.S. economy daily comes from foreign sources. In 1973, only 35 percent came from overseas.

With no other alternative to fuel our nation's economy in the short run than foreign oil, the prospect of Saddam Hussein controlling almost half of the world's oil made Americans very nervous. Gasoline prices shot up and many energy officials warned that a new energy crisis was imminent. J. Michael Davis, the Energy Department's assistant secretary for conservation and renewable energy, called the Iraq crisis a "wake-up call" for a U.S. energy policy.

But now that Hussein has been defeated, Americans may be falling back to sleep. Energy analysts believe that the crisis in the Persian Gulf will do little to break the country's addiction to foreign oil. Failure to adopt an energy policy

that would move the country toward energy independence may lead to even greater problems in the years ahead. "Our nation has its head in the sand when it comes to domestic energy policy," says Senator Ralph Rosenberg, chairman of Iowa's Senate Environment and Energy Utilities Committee.

One of the main reasons why a policy has not been developed has been a lack of consensus over what form it should take. There is an ongoing debate within the energy community over whether to increase energy production or reduce consumption.

Conservationists believe the answer is greater emphasis on energy efficiency and renewable energy measures. They say we must look at mass transit and require auto manufacturers to produce more fuel-efficient cars. This view was expressed by the *Christian Science Monitor* when it declared that the nation needed to go on a "fossil fuel diet."

Conservationists also foresee the country returning to some of the Carter-era industries such as alternative fuels and solar energy. Federal spending on energy research and development was cut in half in the 1980s, with renewable energy research and development falling from \$700 million in 1981 to \$115 million in 1989.

But the war with Iraq may rekindle some of these industries. Anticipating a new-found interest, the Florida Solar Energy Industries Association has nominated Saddam Hussein for its "Solar Man of the Year" award. But even if the government once again gets behind the industry, it may be 10 years before renewable energy sources are used

extensively.

In contrast, those supporting production believe the nation should focus on developing energy sources that already exist such as coal, oil and natural gas. Oklahoma Congressman Bill Brewster, a former state legislator, maintains that the nation's energy efforts should be based on maximizing domestic oil reserves and producing alternative fuels.

Coal is the nation's most abundant fossil fuel. There are 268 billion tons in reserve, enough to last three centuries at current consumption rates. Today, 57 percent of the nation's electricity needs are supplied by coal. Unfortunately, one-third of all carbon monoxide emissions come from coal-related activities. The use of coal as a major energy resource will be limited without development of new clean coal technologies.

Oil industry officials believe the recent increase in oil prices will result in new exploration and more oil production, which will drive oil prices lower. Domestic crude oil prices jumped from an average of \$19.65 a barrel in 1989 to about \$24 in 1990, yielding greater profits for oil companies. As a result, according to a recent Salomon Brothers survey of 210 companies, exploration and production spending may rise 17.5 percent to \$46.8 billion in 1991.

Our country's supply of oil, however, may be drying up. The United States is still one of the largest oil producers in the world, but capacity is diminishing rapidly. Currently, OPEC nations have 75 percent of the world's oil supplies, compared with the United States' 4 percent. Domestic oil production has declined from a high of about 9.7 million barrels a day in 1970 to about 7.7 million barrels today.

The country's best immediate alternative to imported oil may be natural gas. The United States has an abundant supply, and it emits the lowest levels of air pollution of all the fossil fuels. According to the American Gas Associa-

Bush Energy Plan Borrows from States

The National Energy Strategy released by the Bush administration in February is possibly the most political document to circulate through state and federal policy channels in the last decade. Culminating more than 18 months of public hearings and debate, the strategy was drafted by the U.S. Department of Energy and designed to spur more efficiency and competition in energy markets while balancing environmental and economic interests.

You can tell what's in the plan by the lineup of critics and supporters. Secretary of Energy James D. Watkins said it "lays a comprehensive foundation for a cleaner, more efficient and more secure energy future." Oil company executives called it "sound public policy." The American Gas Association commended its dedication to cleaner fuels.

Democrat Senator Timothy Wirth, a member of the U.S. Senate Energy and Natural Resources Committee, said the administration's plan was "short on vision and short on strategy." One major environmental group called it the "Christmas wish list" of the nuclear power and coal industries. *Washington Post* columnist David Broder said the plan was "too serious to be dismissed, but too constrained by complacency to serve as a spur for needed action."

The administration's energy package is not just a policy statement; it includes recommended legislation, and that legislation must now be passed by Congress—the Bush administration's toughest battle. There are more than 80 different energy-related bills circulating in Congress now, and each has the potential to affect the Bush plan.

One of the bills sure to impact the Bush plan is the Johnston-Wallop bill (the National Energy Security Act), which also calls for increased production but relies more on conservation measures than the president's proposal. Senator J. Bennett Johnston, chairman of the Senate Committee on Energy and Natural Resources, maintains that Congress can pass a "com-

prehensive national energy policy which will emphasize the 'Made in America' parts of energy, including conservation."

The National Energy Strategy contains hundreds of good ideas (old and new), and if it is passed at the national level, most of these ideas will have far-reaching implications for the states.

A few of the more salient areas where the states will be affected include coastal plain and offshore oil production, regulations for coal and natural gas production, nuclear plant licensing, utility reform (including integrated resource planning), alternative fuels, mortgage financing incentives for energy efficiency and building and lighting efficiency standards.

As expected, the White House plan calls for opening up the Arctic National Wildlife Refuge and some outer-continental shelf areas, primarily on the West Coast. The Bush administration plans to deregulate oil pipelines further in an effort to reduce costs and make oil even less costly to the consumer. The plan calls for working with state regulatory agencies and removing current coal and natural gas regulation, and streamlining the environmental reviews of natural gas pipelines and coal slurry pipelines.

The strategy calls for scaling back regulations that govern new nuclear power plants, while increasing subsidies to the nuclear industry, and minimizing public input on where nuclear plants should go. The administration's plan would reduce the states' veto power over nuclear siting.

Integrated Resource Planning (IRP) advocated in the plan, may be an unfamiliar term, but it's a term that will dominate many state energy agendas in the next few years, with or without a national energy strategy. IRP requires that when a utility plans future energy use it must take into account energy efficiency and environmental and social costs as well as direct economic costs, public participation and the uncertainties and risks asso-

ciated with producing power (including unintended results). The federal government realizes that states are best equipped to deal with these kinds of utility reforms.

The Bush proposal endorses alternative fuel production. The administration is inching toward requiring alternative fuels for vehicles in car, truck and bus fleets, as well as requiring federal fleets to use alternative fuels. The plan supports the use of ethanol, and the administration has proposed increased support for "energy crops" and alcohol fuel production.

The administration's proposal does not include a recommendation to increase automobile fuel efficiency standards, which is seen by some to be a shortcoming, since in 1988, U.S. vehicles alone consumed 22 percent more oil than the nation produced. However, Bush does call for a Department of Transportation study of fuel economy standards this year.

The administration has pledged to provide technical and financial support to states to develop and expand energy efficiency ratings for use in home financing. Some states are already experimenting with mortgage financing incentives that benefit buyers of energy efficient homes, and 32 states have set up systems to rate the amount of energy a new home will use.

Most of the significant energy legislation in the last decade was designed and implemented at the state level. California, Massachusetts and Florida have required energy efficient lighting and appliance standards for years. Iowa and New York already have comprehensive state energy strategies in place, and California, Vermont and Washington are considering such plans this session. Nevada has legislated Integrated Resource Planning, and Wisconsin has nationally recognized energy efficient building codes. In a sense, the Bush energy strategy mirrors successful state programs already in place.

—George Burmeister, NCSL

tion, within 10 years natural gas could be substituted for 2 billion barrels of oil, an eighth of current American oil consumption. For this reason, many energy experts believe that government policies should encourage the development of natural gas. Congressman Brewster says natural gas is the wave of the energy future because it is abundant and cheap.

According to Senator Pat Delahery, sponsor of Iowa's Energy Efficiency Act of 1990, the lack of consensus over the nation's energy policy means that citizens are looking for direction and leadership in the area of energy. As a result, many policymakers are calling on Washington to develop a national energy agenda that federal, state and local officials could rally behind. President Bush directed the Department of Energy to prepare a national energy plan for the country. The strategy was released in February, beset by criticism.

The strategy now goes to Capitol Hill where it will be considered along with more than 80 other energy bills pending before Congress. Assemblyman William Hoyt, chairman of the New York Assembly Energy Committee, warns that it may be a long time before a national energy policy becomes reality. "It will be at least a year before DOE's national energy strategy is translated into specific legislative initiatives," says Hoyt.

The cornerstone of the president's strategy is increased domestic oil production. This will mean exploring new areas of the country that may have oil. One such area is the Arctic National Wildlife Refuge (ANWR) in Alaska, a national sanctuary for wildlife located 60 miles east of Prudhoe Bay. Oil officials believe that ANWR, with an estimated 3.2 billion barrels of oil, has the greatest potential for domestic oil production. "It is most important that we know what our actual energy reserves are," says Alaska Senator Drue Pearce, past chair of the Senate Special Committee on Oil and Gas. "For this reason, we should begin exploration activities in ANWR as soon as possible."

Assemblyman Hoyt agrees. "Our nation needs oil production," he says. "An effective energy strategy must couple conservation and efficiency with production measures. Developing new sources of oil [such as ANWR] can be done without damaging the environment."

Hoyt maintains.

With images in mind of the environmental damage caused by the Exxon Valdez oil spill, opponents of a massive oil exploration project in ANWR fear the effects it may have on the state of Alaska and Prudhoe Bay. They contend that the country should at least try conservation measures and development of renewable energy sources before jeopardizing an environmentally sensitive area. They also point to geological estimates that there is only a one-in-five chance that oil exists in the refuge.

The Alaska Legislature passed a resolution endorsing the exploration in ANWR, subject to four conditions. The project would have to guarantee to protect the environment, provide job opportunities for Alaska residents, continue the current revenue-sharing formula where 90 percent of the federal government's royalties are paid in cash to the state, and indemnify any action that damages fish and wildlife resources.

Senator Pearce believes oil production must be a part of the nation's energy strategy, but he warns that exploration in ANWR is no quick fix. "If we discover oil in ANWR tomorrow, it will be 10 years before it is on the way to refineries."

With the supply of domestic energy falling and the federal government's energy policy uncertain, the burden of reducing the nation's dependence on foreign oil falls on the states. According to Hoyt, "the states are way ahead of the federal government in terms of developing energy initiatives." As a result, "it will be state legislators and state energy officials developing the nation's energy policy," says Rosenberg.

While Washington is still debating whether to pursue conservation or production, the states are doing both. Oil producing states are pushing companies to explore new wells and to get more out of old ones. "Dependence on foreign energy supplies will decline as we increase research into alternative fuels and discover more efficient recovery methods for existing oil reserves," says Alaska Senator Drue Pearce. "I foresee us [now] returning to oil fields one or two more times."

"Because the nation's oil supply is diminishing, we need to make sure we get every drop of oil out of our wells," says Congressman Brewster. He recommends tax incentives to encourage oil recovery and wildcat (new) drillings. "We

need to be innovative in providing incentives to increase oil production," he says.

Some states have created tax incentives to encourage new drilling and the recovery of oil from existing wells. For example, Oklahoma provides tax incentives for horizontal drilling, a procedure designed to extract as much oil as possible out of a well.



In addition to encouraging production, states are also adopting conservation measures. State programs that focus on reducing the demand for energy have paid major dividends in recent years. Officials estimate that energy efficiency measures already implemented at the state level save more than \$170 billion a year.

Most of the state efforts have been to encourage utility companies to conserve. Iowa has one of the most comprehensive programs. It was developed as part of the state's major energy efficiency bill adopted in 1990. According to Senator Delahery its purpose is to "move utilities into the energy conservation business."

The program calls for utility companies to consider alternative energy sources in meeting their energy projections rather than just constructing new power plants. They are required to reinvest 1.5 percent to 2 percent of gross operating revenue in energy efficiency practices. And they must also offer technical assistance on saving energy to low income families and provide loans to customers to help them retrofit homes

and buildings to be more energy efficient. According to Senator Deluhery, utility companies should become energy efficiency consultants rather than just suppliers.

New York is another state using energy experts as efficiency consultants. The state's Energy Advisory Service to Industry (EASI) program offers on-site energy surveys to small and medium-sized industrial and commercial firms. The program has 60 trained advisers who are mostly retired engineers with technical expertise in efficient energy use.

Since the program's inception in 1979, more than 8,300 surveys have been provided at no cost to the firms. The businesses following the EASI recommendations have cut approximately 15 percent off their energy bills. In total, the program saves over \$64 million per year in energy costs.

Another way states promote energy efficiency is to set minimum standards for building codes. In 1990, Connecticut passed a law setting energy performance standards for existing and new state buildings. The goal of the new program is to reduce energy use by 15 percent by 1995, 30 percent by 2000, and 50 percent by 2010. An advisory group was established in the Office of Policy and Management to make recommendations on how to increase energy efficiency.

Washington's 1990 Energy Code established minimum insulation standards for residential buildings. The legislation combines mandatory building code changes with financial relief for utilities. The code is now 30 percent

California Moves Toward State Energy Plan

Vowing not to wait for a national energy plan, California lawmakers have unveiled a state energy strategy that includes 24 bills by 11 different authors. Senator Herschel Rosenthal says doing nothing and waiting for the "so-called National Energy Strategy could well become an energy tragedy for the nation."

He says that troops coming home from the Persian Gulf are a reminder that California must become more energy independent "so it will not be contributing to foreign control or conflicts over future energy supplies."

Like Iowa and New York, which have already implemented successful statewide energy programs, California is moving toward a plan that addresses four different areas: energy efficiency, renewable energy, alternative transportation fuels and regulatory agency reorganization. Washington state is also considering a similar state energy strategy this session.

Rosenthal is chair of the Joint Committee on Energy Regulation and the Environment, a special committee established in 1989 to analyze how energy policies are intertwined with environmental problems and solutions. The committee's vice chair, Assemblyman Byron Sher, is carrying two bills that encourage conservation and renewable resources.

One bill would set a goal of reducing the state's per capita energy consumption by 50 percent. The other would require state regulatory agen-

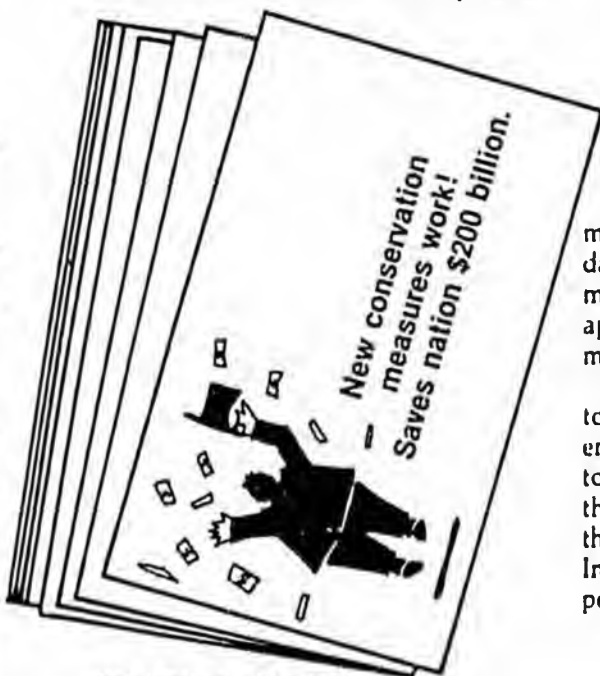
cies to provide regulatory and financial incentives to boost production of renewable resources by 1994. While agencies figure out how to do that, the bill requires all future power plants authorized in the state to produce 50 percent of their power from renewables such as solar, wind and geothermal fuels.

No doubt some of the 24 bills will face opposition. The oil companies are sure to oppose a Rosenthal bill, for instance, that would impose a 10 percent surcharge on oil industry income and would use half of the revenue to purchase older polluting cars and get them off the road in order to help cities meet federal air quality goals. A bipartisan plan to reduce California's current \$10 billion budget shortfall includes a similar, though more modest, proposal to tax the oil industry.

A consensus on many energy policy questions may be emerging in California. The legislature now has the support of the governor when pushing energy and environmental reforms that make use of market incentives and are touted as good for the economy.

Governor Pete Wilson supports plans to sell the state's innovative energy technologies—solar, wind and geothermal—to the developing world, a move seen as state economic development that also benefits the environment.

—Peter Asmus, California free-lance writer



more stringent than the previous standard. Electric utilities are required to make payments to homes (\$900) and apartments (\$390) to offset the costs of meeting the new standards.

According to Julie Burman, assistant to the director in the Washington state energy office, the program is estimated to save 200 megawatts of electricity by the year 2010, which amounts to half that used by a moderate-sized coal plant. In all, the program will save enough power to fuel 135,000 additional homes.

In Iowa, Senator Rosenberg wants to

move toward a system where all buildings could be rated based on their energy use. The program would be similar to the miles per gallon rating in cars. This would give consumers easy access to finding out which buildings are energy efficient," says Rosenberg.

Most energy experts believe that in order to reduce the nation's dependence on foreign oil, citizens will have to change their transportation habits. Although automakers are making more efficient cars, transportation is

NCSL Takes a Stand on Energy

NCSL's policy on a national energy policy contains several basic themes: It urges the federal government to develop a comprehensive energy strategy; to provide for the most efficient use of energy; to promote reliable sources of domestic energy supplies; to ensure the exploration, development and use of energy in an environmentally sound manner; and to develop and promote the use of alternative and renewable sources of energy.

NCSL believes that the production of domestic energy sources such as oil, coal, natural gas, nuclear energy, hydropower, wind, solar and geothermal should be encouraged to offset the nation's reliance on oil imports and to move the United States toward greater energy independence.

The NCSL policy on a national energy policy, like other NCSL policies, provides guidelines for representing state interests before Congress, the federal government and other interested parties.

consuming a greater portion of oil. In 1989, the average car got 28.3 miles per gallon, which is almost double the 1974 level of 14.2 miles per gallon. But transportation still accounts for approximately two-thirds of the oil consumed in the country, and 20 percent more than it did in 1973.

Many conservation proponents want to raise the average mileage for automobiles to 40 miles per gallon by the year 2000. Federal legislation is currently pending. According to the bill's sponsor, U.S. Senator Richard Ryan of Nevada, the measure could save 2.4 million barrels of oil per day by the year 2005, more than the nation is importing from the Persian Gulf. However, auto companies warn that this will mean smaller, more expensive cars that are more dangerous to drive.

In the states, most of the legislative activity has centered on developing alternative fuels. Legislators consider the use of alternative fuels as serving a dual purpose. It will not only reduce the country's dependence on oil, but also reduce

air pollution. Arizona, California, Colorado, Iowa, Louisiana, New York, Oklahoma, Texas and Washington are among states experimenting with converting parts of their government fleet vehicles to alternative fuels. Louisiana passed



legislation in 1990 that deregulates natural gas when it is used to fuel vehicles. Up to 80 percent of the cars in the state fleet are to be converted to alternative fuels, including natural gas, by 1995, and local governments are being urged to convert their fleets also. Assemblyman Hoyt wants to expand New York's program. He is introducing a bill that would make it the first state to convert its entire public fleet to alternative fuels by the year 2001.

Washington is also experimenting with letting workers spend one or two days a week working at home with their computers rather than driving in to work. Companies volunteer for the program, which is coordinated by the state's energy office. The program aims to reduce congestion in the Puget Sound area.

One idea that has not been adopted but is being promoted by the World Resources Institute is a "sipper-guzzler" fuel plan that would impose a levy on cars whose fuel consumption rate is below a set figure. The money generated would be used to offer rebates on cars rating higher. Another idea is a "feebate" system where the amount of gasoline an automobile consumes would be linked to car insurance premiums — the more efficient the vehicle, the cheaper the rate.

But many policymakers believe that a

piecemeal approach to transportation will not be sufficient. According to Assemblyman Hoyt the country needs to change its concept of transportation. "Transportation departments need to focus beyond building bridges and repairing highways. Someone has to look over the horizon," says Hoyt.

One idea that may be over the horizon is the development of an extensive mass transit high speed rail or train system to accommodate the growing population and people's need to travel. According to the Motor Vehicles Manufacturers Association, motorists drove more than two trillion miles in 1989. The EPA estimates that this number could double by the end of this decade.

According to Hoyt, "our country is 20 years behind the Japanese, French and Germans in developing a mass transportation system. A high-speed system would both save energy and reduce auto emissions, which means the environmental impacts are much less hurtful."

In addition to state sources, state energy efficiency programs have been financed through federal energy grants and oil overcharge funds. The overcharge funds originate from a series of court rulings in the early 1980s against oil companies who violated federal regulations in the pricing of their oil. (The largest ruling was against Exxon, which was ordered to pay nearly \$2 billion.) The fines went into a fund to be distributed to the states for energy efficiency programs. To date, the states have received almost \$4 billion but the fund is drying up and will be depleted in the next five years.

Without the overcharge fund, says Dick Byers, energy policy specialist with the Washington state energy office. "We will be asking the Legislature for more money, and this is probably true with other states." In some states the potential shortfall could be large. New York, for example, has received a total of approximately \$300 million in oil overcharge money to help fund its energy conservation programs.

But Senator Rosenberg believes that energy is so interconnected with other public policy issues such as the environment that lawmakers have no choice but to find new ways to fund energy programs. "By pushing state energy programs we are not only protecting the environment but also preventing future Persian Gulfs."

HJR

75

Date of Committee Action: 2/27/92

The LABOR AND COMMERCE Committee considered:

HJR 75

HOUSE JOINT RESOLUTION NO. 75

FOREIGN WORKERS AND LONGSHOREMEN

Relating to employment for Alaskan longshoremen.

RECOMMENDATIONS:
be replaced with CSHSR 75 (L+C) the same title
 a new title

- have attached amendments(s)
- do pass
- do not pass
- no recommendations
- individual recommendations
- additional referral to the _____ Committee

DOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dep/Date) _____

fiscal impact _____ fiscal note(s) _____

zero fiscal note Dept. of Labor zero fiscal note(s) _____

| SIGNING <u>DO PASS</u> | DP | OTHER RECOMMENDATIONS | DNP | NR | AM |
|------------------------|----|-----------------------|-----|----|----|
| <i>[Signature]</i> | | <i>John I. Taylor</i> | | X | |
| <i>[Signature]</i> | ✓ | | | | |
| <i>[Signature]</i> | ✓ | | | | |
| <i>[Signature]</i> | ✓ | | | | |
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[Signature]
CHAIRMAN'S SIGNATURE

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO : HJR 75

Revision Date: _____
 Title: "A Resolution Relating to employment for Alaskan longshoremen."
 Sponsor: Representative Davidson, et al.
 Requestor: House Labor & Commerce

Department Affected: Labor
 BRU: Labor Standards & Safety
 Component: Wage & Hour

COMPONENT SERIAL NO. 345

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 |
|------------------------|------------|------------|------------|------------|------------|------------|
| 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)

| | | | | | | |
|---------------|------------|------------|------------|------------|------------|------------|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

Estimate of current year impact: None

ANALYSIS: (Attach a separate page if necessary)

This resolution does not affect the Department's programs.

Prepared by: Randy Carr, Acting Director *Randy Carr* Phone: 264-2452
 Division: Labor Standards & Safety Date: 2/27/92
 Approved by Commissioner: G. W. Mahlen *G. W. Mahlen*
 Agency: Department of Labor Date: 2/27/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).

STATE OF ALASKA
House of Representatives
District 27

Representative Cliff Davidson
Chairman
House Resources Committee



Box V, Juneau, AK 99811
(907) 465-2487
Box 746, Kodiak, AK 99615
(907) 486-8250

SPONSOR STATEMENT

Representative Cliff Davidson

House Joint Resolution 75

House Joint Resolution 75 responds to current problems facing longshoremen in various Alaskan ports where crews of foreign ships have been performing American work. In 1990, American longshoremen won a hard fought victory to amend the Immigration Act to prohibit such actions. However, in drafting the regulations to implement the amended Act, the Department of State and federal Department of Labor have interpreted the Act broadly allowing foreign vessels to continue to employ foreign crew members to perform the work of American longshoremen.

Exemptions to the Act have been granted by the federal Department of Labor in a growing list of Alaskan ports. This comes at a time of high unemployment in Alaska. There are more than adequate numbers of skilled Alaskans to perform the necessary longshoreman work. Securing these jobs for Americans would benefit the Alaskan economy and the local communities where they are performed.

As sponsor of this legislation and a longshoreman, I feel that this resolution will send a strong message to the proper authorities in Washington, D.C., to interpret the amended Immigration Act to protect jobs that rightfully belong to Alaskans.

JAPANESE UNFAIR TO AMERICAN LONGSHOREMEN

On January 14, 1992, the Japanese vessels were included on the prohibited list, forbidding the Japanese vessels from using alien crew members to perform longshore work in American waters. We are of the opinion they are still trying to get around the law by developing loop holes at the expense of the American workers, the Alaska economy, and the local communities where the work would be performed.

We longshoremen, concerned about our jobs and the jobs of future longshoremen, have analyzed the affects on the State of Alaska. In our opinion, there are in excess of 300,000 man hours lost as a result of foreign crew members performing longshore work. We base this opinion on the fact that clear reports indicate 90% of the product shipped from Alaska waters in bottom fish alone is done so by foreign vessels, and are being loaded with the assistance of alien crew members performing longshore work. With this and the 300,000 man hours in mind, the affect on the economy would amount to in excess of \$20,000,000, which are direct longshore jobs, working directly on the foreign vessel. If you factor for each longshoremen working there are approximately seven support jobs needed to keep that position operation, you can see that would amount to a much larger man hour requirement, and an even greater work force needed to meet those longshore demands. We estimate that would amount to approximately 1,400 full-time jobs in the State of Alaska, directly related to this export cargo movement. This does not include those jobs associated with the seasonal fish industry, such as salmon. By using an annual income factor of \$50,000.00 for each position, we estimate this would amount to \$70,000,000.00 to the Alaska economy. \$70,000,000 that

would be coming into the Alaska economy if we had Americans performing this longshore work.

In view of all this work activity, we hope that our State and Federal government will recognize the importance of capturing this work for Alaskan residents and American workers, and assist us in this cause.

Work demands require the longshoremen to be available on a day-to-day basis; therefore, making it impossible for longshoremen to be anything but local residents. We must have the longshoremen located in those communities to have them available to meet work demands. There are only a couple of incidents when we have had temporary workers travel in to other areas, when the Union is trying to meet longshore demands. For example, in Bristol Bay during the salmon season we would have extra longshoremen travel from other parts of the State to handle the work load during a relatively short period of time. This not only helps to meet the work requirements, but also gives those longshoremen living elsewhere within the State the opportunity to enhance their income. Although finding adequate housing may be difficult, we believe if the work is captured, we will have the wherewithal to address those logistic problems.

The Union is not trying to eliminate the foreign trapper in Alaska waters. We are only trying to capture the rightful longshore jobs for the Alaska residents and American citizens.

Another aspect to consider is that, based on the Magnuson Act adopted a number of years ago, the foreign vessels are technically prohibited from working in Alaska waters within the 200 mile limit. There are provisions to allow foreign vessels to work in American waters, under an agreement with the Americans called the Governing International Fisheries Agreement (GIFA). We believe this needs to be monitored very closely. If they abuse the immigration

laws, then, those privileges under the Magnuson Act should be revoked.

We do know the Foreign Trampler Vessels are currently attempting to develop methods of getting around using American labor to perform longshore jobs. We believe this goes against the heart and intent of the immigration laws passed in 1990; and against the general idea that Americans should provide more employment for American workers, especially in areas involving the exportation of goods from our country to another.

The last and final point is that in these work force operations it is very apparent that the Japanese are taking advantage of Americans once more. In the fishing industry the Japanese control the fishing, the fish prices, and the exportation of the goods; they control the market. It is only fair to give and require that the Japanese, and all foreigners, abide by the immigration laws and provide the additional work opportunity to the American workers.

We hope you will support our position and become vocal on these important issues - to provide and stimulate the American economy, the Alaska economy, and the Alaska community economy so dramatically.

Statement provided by
International Longshoremen's and Warehousemen's Union
Alaska Local 200, Regional Director, John J. Bukoskey
P.O. Box 624
Dutch Harbor, AK 99692

Congress of the United States

House of Representatives

Washington, DC 20515

June 28, 1991

Mr. Stephen Miller
Office of Maritime and Land Transport
Department of State
Washington, D. C. 20520

Dear Mr. Miller:

We are taking this opportunity to express very serious concerns about the State Department's surprising interim final rule for foreign prohibitions on longshore work by U.S. nationals, pursuant to section 258(d) of the Immigration and Nationality Act of 1952, as amended by section 203 of the Immigration Act of 1990.

The "reciprocity exception" (section 258(d)) directs the Secretary of State to "compile and annually maintain a list of longshore work, by particular activity, of countries where performance of such a particular activity by crewmembers aboard United States vessels is prohibited by law, regulation, or in practice in the country." (Emphasis added.) We preface the following comments on the fact that the list is in furtherance of a narrow exception carved out of an otherwise broad and deliberate effort to stem the hemorrhaging of longshore work to foreign seamen, which resulted from the INS' unbridled interpretations of the parameters of their permissible activities under the pre-existing law.

As defined in the subsection, the term "in practice" refers to an activity normally performed in such country during the one-year period preceding the arrival of such vessel into the United States or coastal waters thereof.² The focus of this definition is entirely on the time period within which such practice must occur for consideration and is nowhere limited or qualified.

In light of this directive from Congress, we cannot accept the Department of State's interpretation of "in practice" as it is related to private collective bargaining agreements, industry agreements, or traditional practices. The House and Senate conferees, and indeed the undersigned Members of Congress, unequivocally instructed the Secretary of State to compile a list of countries that not only may have a pertinent restrictive statutory law or regulation, but as well where there may be any unofficial prohibition in practice which has the effect of foreclosing U.S. nationals from performing longshore work in its ports. Contrary to your Department's inexplicable present posture, Congress neither explicitly stated nor implicitly inferred in the Immigration Act of 1990 that in order for it to be included on the Secretary's list a collective bargaining agreement, industry agreement, or practice would have to be one that was or would be negotiated or sanctioned by the representatives of the foreign government.

Mr. Stephen Miller

June 27, 1991


Thus, you will find in the October 26, 1990, edition of the Congressional Record, page S. 17115, a colloquy between Senator Brock Adams (D-WA) and Senator Edward Kennedy (D-MA) in which Senator Adams refers to various scenarios that would constitute a prohibition "in practice," as follows:

Such a restriction could take the form of a collective bargaining agreement protecting longshore work for domestic longshoremen or an industry contract or agreement that effectively imposes any restriction on U.S. crewmen performing longshore work in that country.

Again, no qualifications, limitations, or sanctions are perceptible. Nevertheless, as implemented by your regulations, carried to its unintended and unprescribed extreme, the "exception" effectively becomes the "rule." Indeed, the very brevity of your proposed list is glaring evidence of this foreseeable result. Your characterization of the standards for the reciprocity exception thwarts the letter and the intent of the law, which was designed to protect--not syphon away--jobs traditionally performed by U.S. longshoremen with few exceptions, all of which have been carefully delineated in the very text of the legislation. For all intents and purposes, your implementing interpretation will have the certain effect of reopening the door for foreign crewmen to perform longshore work in the United States, but ever so much wider than before, by the wholesale sanctioning of activities that can be performed by alien crewmen aboard vessels of non-listed countries.

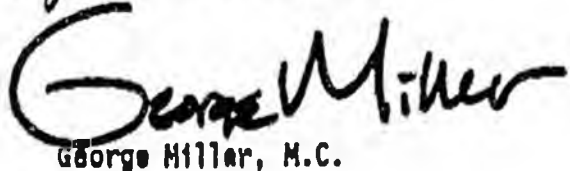
We therefore strongly urge and expect that you will promptly modify the interim final rule in a manner consistent with the letter, spirit, and intent of the new law.

Sincerely,


Jack Brooks, M.C.


Howard L. Berman, M.C.


William D. Ford, M.C.


George Miller, M.C.

LEONARD, CARDER, NATHAN, ZUCKERMAN, ROSS, CHIN & REMAR

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RECEIVED
2-20-92

PLEASE REFER TO OUR FILE NO.

MEMORANDUM

To: David Arian
Brian McWilliams
Leon Harris

From: Richard Zuckerman

Date: February 18, 1992

Re: Use of Alien Crewmembers to Perform Longshore Work
In Alaskan Ports

=====
During the past 10 days, six Japanese shipping companies have taken the first step in their attempts to come within the "prevailing practice" exception contained in the new longshore immigration law. These companies, through their counsel, have filed attestations with the Department of Labor in which they claim to have an established practice of loading cargo and operating cargo-related equipment in the following locations in Alaska: Akutan; St. Paul; Chignik; Dutch Harbor; Makushin Bay; Beaver Inlet; and Wide Bay.

In essence, the Japanese shippers are asserting that within the last 12 months, alien crewmembers made up over fifty-percent of the workers who engaged in loading cargo and in operating cargo-related equipment at each of the above-mentioned locations. Under established procedures, the Department of Labor has accepted the attestations for filing and will not question the representations made therein unless the Union files a complaint with supporting evidence which contradicts the claims set forth in the attestations.

I have been working closely with John Bukoskey and representatives of Local 200, Unit 223, to gather the evidence necessary to support complaints. Needless to say, this is a major undertaking because we will be required to file complaints against each company with respect to each location. It is quite possible that, in the coming days or weeks, these same or other companies will file additional attestations claiming a "prevailing practice" in still more locations in Alaska.

LEONARD, CARDER, NATHAN, ZUCKERMAN, ROSS, CHIN & REMAR

To: David Arian
Brian McWilliams
Leon Harris
Re: Alien Crewmembers in Alaskan Ports
February 18, 1992
Page 2

The Alaska attestations are the first to be filed anywhere in the United States under the new law. The staff at the Department of Labor has just begun to learn how to deal with longshore work attestations, and it is likely that the Alaska cases will set substantive and procedural precedents that will apply in future cases. In addition, I am certain that foreign shipping companies that hope to use their own crewmembers to perform longshore work in Washington, Oregon or California will be closely monitoring the progress of the attestations filed on behalf of the Japanese companies in Alaska.

I would like to meet with you as soon as possible to discuss the problem in more detail, and to get some direction on how I should proceed. If you have any questions in the meantime, please let me know.

cc: Richard Austin
James Spinosa
John Bukoskey ✓
Rene Herrera
Pete Hendrickson
Linday McLaughlin (via FAX 202 223-9093)

RSZ:ig
[dictated but not read]

LEONARD, CARDER, NATHAN, ZUCKERMAN, ROSS, CHIN & REMAR

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

WILLIAM M. CARDER
ANN CASPER
VICTORIA CHIN
SANFORD H. NATHAN
ROBERT REMAR
BETH A. ROSS
MATTHEW D. ROSS
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408 - 14TH STREET, SUITE 700
OAKLAND, CALIFORNIA 94612
TELEPHONE: (510) 272-0189
FAX (510) 272-0174

PLEASE REFER TO OUR FILE NO.

1-48

MEMORANDUM

To: David Arian
From: Richard Zuckerman *RZ*
Re: ILWU v. Meese
Immigration Case and Legislation
Date: December 6, 1991

=====

A. Background Litigation

As I am sure you know, in ILWU v. Meese the U. S. Court of Appeals for the Ninth Circuit held that the foreign crane operators involved were not "crewmen" within the meaning of the U.S. immigration laws. Hence, their shipboard labor was unlawful under the general rule that aliens may not perform work in the U.S. absent prior certification from the Secretary of Labor that there are no qualified Americans available to do the same work. In reaching this conclusion, the court squarely rejected the policy of the Immigration and Naturalization Service (INS) that the INS had no jurisdiction to restrict the duties or work performed on board a vessel. The court also noted in its opinion that "cargo handling is not an activity associated with traditional crewmen, but is ordinarily associated with longshore laborers."

In analyzing the case the court discerned three factors relevant to the classification of a ship employee as an alien "crewman": (1) the nature of the employee's duties; (2) when those duties are performed; and (3) whether the employee has a permanent connection with the ship. With respect to the Canadian crane operators at issue, the court found that they were not "crewmen" because their work was not crewman's work; they did not "aid in navigation" when the vessel was underway, but worked primarily when the vessel had entered U.S. waters to load cargo; and they had no "permanent connection" with the ship.

David Arian
ILWU v. Meese
December 6, 1991
Page 2

B. Immigration Legislation

Subsequent to the Ninth Circuit's decision in December, 1989, the ILWU and the ILA, principally through their Washington, D.C. representatives, became involved in drafting legislation to restrict aliens from performing longshore work in U.S. waters. There was general agreement that the court's decision in ILWU v. Meese could not provide protection in all circumstances to members of the longshore unions.

Ultimately, in late November, 1990, the Immigration Act of 1990 was enacted into law, to become effective in May, 1991. One provision of the new Act deals with "limitations on performance of longshore work by alien crewmen." This amendment to the former law generally provides that alien crewmen are prohibited from performing longshore work in U.S. waters. "Longshore work" is broadly defined as follows:

any activity relating to the loading or unloading of cargo, the operation of cargo-related equipment (whether or not integral to the vessel), and the handling of mooring lines on the dock when the vessel is made fast or let go, in the United States or coastal waters thereof.

The new law recognizes three exceptions to the general rule. First, there is an exception for "safety and environmental protection": the term "longshore work" does not include the loading and unloading of certain "dangerous" or "hazardous" cargo as defined in other legislation. Second, there is the "prevailing practice exception" which applies where (1) a collective bargaining agreement in a local port specifically permits longshore work to be performed by alien crewmen or (2) there is no collective bargaining agreement covering at least 30 percent of longshore workers in a local port and the employer can establish that a prevailing practice exists under which alien crewmen have performed longshore work.

Finally, the new law provides a "reciprocity exception": an alien crewman can perform longshore work if his or her vessel is registered in a country and is majority owned by nationals of a country or countries, which by law, regulation, or in practice do (or does) not prohibit longshore work by crewmembers aboard U.S. vessels.

David Arian
ILWU v. Meese
December 6, 1991
Page 3

C. Federal Regulations Addressing Aspects
Of The Immigration Legislation

The Immigration Act of 1990 directs the Secretaries of Labor and State to promulgate regulations dealing with the "longshore work" amendments. Earlier this year the Labor and State Departments issued "interim rules". These rules are effective only until the end of 1991, at which time the "final rules" must issue.

The Labor Department regulations concern implementation of the "prevailing practice exception". As indicated above, this exception cannot normally apply if there is a collective bargaining agreement in a local port covering at least 30 percent of the individuals employed in performing longshore work. The DOL interim rules define "port" broadly (as opposed to defining it as a single pier or dock, as the shipping industry proposed); if the final rules remain the same, the "prevailing practice exception" does not appear to pose a serious threat on the West Coast, because we can argue successfully that the ILWU has an agreement in virtually every "local port" covering at least 30 percent of the longshore workers. Indeed, since the DOL interim rules went into effect in May, 1991, not a single employer has applied for clearance under the prevailing practice exception.

The interim rules of the State Department, however, are very problematic and do pose a serious threat if they remain unchanged in the final rules. Under the Immigration Act, the State Department is to develop each year a list of foreign countries where longshore work by crewmen aboard U.S. vessels is prohibited by law, regulation or in practice. Unfortunately, the list set forth in the interim rules excludes such countries as Japan, Korea, Mexico and Canada. (I am enclosing a copy of an article from the Journal of Commerce which includes the list).

If this list becomes final, the State Department regulations during 1992 at least, would seem to have the effect of allowing more foreign crewmen to perform longshore work in U.S. waters than was previously the case. For example, the Canadian crane operators barred by the Meese decision would now be permitted to enter U.S. waters to perform log-loading operations aboard Canadian vessels. In other words, the effect of the State Department regulations as currently drafted is to defeat the very purpose of the "longshore work" amendments.

This is where the law currently stands. I will let you know as soon as the final rules issue. If the State Department chooses not to amend its list in the final rules, legislative

David Arian
ILWU v. Meese
December 6, 1991
Page 4

and/or legal action would appear warranted.

Please let me know if you have any questions or desire additional information.

c:\vz\mccal.ies

RSZ/ta

Foreign Ports That Bar US Crews Listed

By WILLIAM DIBENEDETTO

Journal of Commerce Staff

WASHINGTON — The State Department identified 47 countries with longshore labor regulations that bar U.S. mariners from doing longshore work in those countries.

The information, a requirement of last year's amendments to the 1952 Immigration and Nationality Act, will be used by the attorney general to determine the extent alien crewmen can do longshore work in U.S. ports. The 1990 legislation had been requested by labor unions.

Despite the list, most traditional cargo loading and unloading patterns in the United States and foreign countries will continue. The list is a tool to identify the differences between U.S. and foreign longshore practices.

Under the amendments, which redefine the term "longshore work," the United States will impose the same longshore restrictions on foreign vessel crews in the United States that American crews encounter in the vessel's home country.

The ideas of reciprocity and preservation of current longshore prac-

SEE US LISTS, PAGE 12B

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State Department List Of Foreign Prohibitions on Longshore Work

Journal of Commerce Staff

WASHINGTON — The State Department listed the following countries where longshore work by seamen aboard U.S. vessels is prohibited by law, regulation or in practice:

- | | | |
|-----------------|---------------|-----------------------|
| • Argentina | • Guinea | • Portugal |
| • Australia | • Honduras | • Romania |
| • Belgium | • India | • St. Lucia |
| • Brazil | • Indonesia | • Sierra Leone |
| • Burma | • Israel | • South Africa |
| • Chile | • Italy | • Spain |
| • China | • Jamaica | • Sri Lanka |
| • Colombia | • Kenya | • Taiwan |
| • Congo | • Madagascar | • Thailand |
| • Costa Rica | • Mauritania | • Tonga |
| • Cote d'Ivoire | • Morocco | • Trinidad and Tobago |
| • Egypt | • Mozambique | • Tunisia |
| • El Salvador | • Namibia | • Turkey |
| • France | • Oman | • Uruguay |
| • Guatemala | • Pakistan | • Yemen |
| | • Philippines | |

JAPAN

US Lists Foreign Ports That Bar American Crews

CONTINUED FROM PAGE 1A

ices were introduced late during the congressional debate last year by lawmakers attempting to soften the impact of the original definition.

That definition would have prevented foreign vessel crewmen from doing virtually any loading or unloading work in the United States, even normal shipboard duties.

U.S. longshore labor leaders pushed the definition in an effort to stop the practice of "flying in" aliens to work merchant vessels. But shipper and carrier opponents said the original definition was too broad, too costly and raised potential safety hazards, particularly in handling oil or hazardous cargoes.

Even in its softened version, the provision has stirred objections. H. George Miller, executive director of Shippers for Competitive Ocean Transportation, said the "law is so broad and imprecise, every foreign ship is in danger of being in violation."

A notice issued by State described a problem it faced in compiling the list: There is "no international consensus on what constitutes longshore work... Some countries apply prohibitions to activities on board the ship, while other countries do not even consider shipboard activities as longshore work."

The department decided that "purely private" collective bargaining agreements between private operators and longshore unions that are not imposed or approved by the foreign government "involved would not constitute a longshore practice that would put a country on the list."

Peter Sandlund, Washington representative of the Council of European and Japanese National Shipowners' Association, said he was still analyzing the list, but he added: "It came out the way we expected. We have no major beefs."

He was especially pleased with the distinction drawn by State between private collective bargaining

agreements and those imposed or approved by foreign governments.

Congo and Jamaica are on the list "because their governments have directly negotiated restrictive agreements with labor unions," said the department.

Argentina, Belgium, Belize and Colombia were listed because their governments "either give designated labor unions the exclusive right to do certain longshore activities or have approved collective bargaining agreements with such restrictions."

add Japan
signature 11/14/92

HJR

81

(7)

HOUSE COMMITTEE REPORT

Date Referred: March 4, 1992

FURTHER REFERRALS:

Date of Committee Action: 3-12-92

The LABOR AND COMMERCE Committee considered:

HJR 81

HOUSE JOINT RESOLUTION NO. 81

REVIEW OF TRAVEL ADVISORIES

Relating to travel advisories issued by the Department of State.

RECOMMENDATIONS:

be replaced with _____ |] the same title
|] a new title

[] have attached amendments(s)

[] do pass

[] do not pass

[] no recommendations

[] individual recommendations

[] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

[] fiscal impact _____

[] fiscal note(s) _____

[] zero fiscal note _____

[X] zero fiscal note(s) House ITT

| SIGNING DO-PASS | DP | OTHER RECOMMENDATIONS | DNP | NR | AM |
|--------------------|----|-----------------------|-----|----|----|
| <i>[Signature]</i> | | | | | |
| <i>[Signature]</i> | ✓ | | | | |
| <i>[Signature]</i> | ✓ | | | | |
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[Signature]
CHAIRMAN'S SIGNATURE

**STATE OF ALASKA
1992 LEGISLATIVE SESSION**

BILL NO. HJR 81

Revision Date: _____ Department Affected: _____
 Title: Relating to travel advisories BRU: _____
issued by the Dept. of State Component: _____
 Sponsor: House ITT
 Requestor: House ITT COMPONENT SERIAL NO.

| | | | |
|--|--|--|--|
| | | | |
|--|--|--|--|

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 93 | FY 94 | FY 95 | FY 96 | FY 97 | FY 98 |
|------------------------|-------|-------|-------|-------|-------|-------|
| PERSONAL SERVICES | | | | | | |
| TRAVEL | | | | | | |
| CONTRACTUAL | | | | | | |
| SUPPLIES | | | | | | |
| EQUIPMENT | | | | | | |
| LAND & STRUCTURES | | | | | | |
| GRANTS, CLAIMS | | | | | | |
| MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0 | | | | | |
| CAPITAL | 0 | | | | | |
| REVENUE | | | | | | |
| FUND SOURCE: | 0 | | | | | |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---------------------|---|--|--|--|--|--|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| FUND SOURCE: | | | | | | |
| TOTAL | 0 | | | | | |

POSITIONS:

| | | | | | | |
|-----------|--|--|--|--|--|--|
| FULL-TIME | | | | | | |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary.)

Prepared By: Rep. Tom Moyer *Tom Moyer* Phone: 465-4930
 Division: Chair, House ITT Date: 3-3-92

Approved by Commissioner: _____ Date: _____
 Agency: _____

HOUSE SPECIAL COMMITTEE ON INTERNATIONAL TRADE AND TOURISM

ALASKA STATE LEGISLATURE

PO. BOX V, JUNEAU 99811

(907) 465-2974



MEMORANDUM

DATE: March 4, 1992

TO: Representative David Finkelstein, Chair
House Labor and Commerce Committee

FROM: Representative Tom Moyer, Chair
House Special Committee on
International Trade and Tourism *Tom*

RE: HJR 81 "Relating to travel advisories issued by the
Department of State"

I would like to respectfully request that you schedule HJR 81, which relates to travel advisories issued by the Department of State, for a hearing at your earliest convenience. I've attached back-up information on this resolution, along with copies of numerous articles on the Alaska-Canada Highway.

Last month the State Department issued a travel advisory on the Yukon and the Alaska-Canada (Alcan) Highway, which was very negative for both Alaska and the Yukon and there were many erroneous statements in the advisory. These advisories are issued in written form and also placed on a recording that can be accessed by dialing a 1-800-number.

For your information, this advisory was finally reworded last week and the recording has been changed. The current recording is not quite as sensational as the original one. I still believe the Legislature should go on record urging the State Department to contact states and other entities that might be affected by such advisories in the future.

Thank you for your consideration of this request.

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 2. Memo and backup materials: From Senator Stevens
 3. News Release: From Yukon Government
 4. News Release: From Alaska Division of Tourism
 5. Memo: From Senator Murkowski to US Bureau of Consular Affairs
 6. News Release: From Senator Murkowski
 7. US State Department Travel Advisory for Canada
 8. News articles: Juneau Empire (2)
Anchorage Times (2)

ALASKA

Alaska Division of Tourism
P.O. Box 2
Juneau, Alaska 99811-0800
Phone: (907) 465-2010

Department of Commerce &
Economic Development
State Office Building, Ninth Floor
333 Willoughby Avenue
Fax: (907) 586-6399

TELECOPIER TRANSMITTAL SHEET

DELIVER TO: Dave Johnson 604-685-5285

FROM: Conn Murray

U.S. Consul General's office

State of Alaska, Director
of Tourism

Number of pages INCLUDING transmittal sheet: 1

DATE: 2-6-92

OPERATOR: _____

TIME: _____

IF TELECOPY DOES NOT TRANSMIT PROPERLY, PLEASE CALL (907) 465-2012.

The Travel Advisory on the Yukon tended to blind-side not only our friends in Canada, but Alaska as well since the Highway is our only land-link to the "lower 48."

Please note that there is no point on the highway where there is more than 97 miles between gas stations -- and the average is closer to 55. There are places on the U.S. interstate system where they're further apart than that. As for medical facilities, almost every little town has them. In one spot there is about 150 miles between medical facilities -- I'll bet there are places in Nevada or Kansas that are similar. Peak season on the highway it's always advisable to have reservations, just as it is in Alaska, Hawaii or any other tourist destination. But the Government of the Yukon assures us that with new and expanded facilities they are expecting business as usual in '92, and so are we in Alaska. Gas prices throughout Canada are higher than the U.S. On the highway they average \$2.19 per U.S. gallon, certainly not triple most U.S. prices. As for food, lunch in Teslin runs from \$3.00 to \$7.00, with dinner \$5.00 to \$17.00, and other highway towns are comparable. Based on world prices, or even many other U.S. prices, travel on the Alcan highway might be considered a bargain. For this reason, I'm sending along our suggestions for changes in the Advisory to make it confirm a little more closely to the facts.

Thanks for your help. I'm hoping your recorded message can be changed, and perhaps a revision provided the press.

note: Our division is moving the following press release in Alaska:

ALASKA DIVISION OF TOURISM P.O. BOX 2



JUNEAU, AK 99811-0800 (907) 465-2012 FAX 586-6399

MEMORANDUM
Thursday February 6, 1992

TO: Susie Kemp/State Division of Tourism
FROM: John Aravosis, Senator Stevens' Office (202) 224-1031
RE: State Department Notice on Travel to Western Canada

Attached is the State Department notice on travel to Western Canada.

State has a service where you can call up and hear tape recorded notices about travel conditions in different countries. I don't think that the notice sounds as bad on paper as it does when you hear it on the tape. The number for the tape is 202-647-5226. Ask for the tape on travel conditions in Canada.

I've spoken with State about the tape and they seem willing to make changes if you have any suggestions. You can either contact the US Consul General in Vancouver, Dave Johnson at 604-685-4311, or you can contact Tim Collins who is with the Canada Desk at the State Department. Both gentlemen were very willing to help.

One thing to bear in mind, much of the information in the notice seems realistic about actual conditions in Western Canada. And, the State Department is required by law to let American travellers know about conditions in foreign countries -- travelling in Western Canada is not like travelling in the Chicago suburbs. However, the tone, and some of the comments, might not be the most appropriate. Again, I suggest Susie and the Division of Tourism coordinate a response to State where you recommend changes in the text.

Let me know if you meet any obstacles.

Travel Advisory

United States Department of State
Bureau of Consular Affairs
Washington, D.C. 20520



There are three types of travel advisories. **Warning** recommends deferral of travel to all or part of a country. **Caution** advises about unusual security conditions, including the potential for unexpected detention, unstable political conditions, or serious health problems. Not intended to deter travel to a country. **Notice** provides information on situations that do not present a broad-scale risk, but which could result in inconveniences or difficulty for traveling Americans.

Canada — Notice

Canada - Notice
February 4, 1992

Summary: There has been an increased number of cases of meningococcal disease in several areas of eastern Canada. Although the risk for travelers is very low, U.S. travelers may wish to consider having their children between the ages of 2 and 19 vaccinated against the disease. In addition, in Western Canada, the Yukon territory is commemorating the 50th anniversary of the building of the Alcan Highway - its "Rendezvous 92." U.S. travelers planning to attend "Rendezvous 92" should be aware of and take appropriate precautions related to travel in the far north. End summary.

Meningitis: The U.S. Centers for Disease Control and the Quebec and Ontario Health Ministries have issued a health alert concerning the increased number of cases of meningococcal disease in several areas of eastern Canada. The affected areas include the Ottawa-Carleton area, the Laurentides region north of Montreal, the Lanaudiere region, the Outaouais area in West Quebec, and Prince Edward Island. As a preventive measure, a program of vaccination is being instituted for children in those areas. The risk for short-term travelers is very low and no particular precautions are needed for those traveling to the affected areas for most activities, such as skiing or shopping. However, because the number of cases among school-aged children is substantially above normal, vaccinations should be considered for children 2 through 19 years of age traveling to the affected areas if they will be in very close physical contact with local school-aged children, or will be staying more than three days and expect to have social contact with local school-aged children. Ideally, the vaccine should be administered at least 10 days before travel. Vaccination is not recommended for children under two years of age, and adults are considered at very low risk. For further information, contact the Centers for Disease Control's International Hotline at (404) 392-4559.

"Rendezvous 92": 1992 marks the 50th anniversary of the building of the Alcan Highway. The Yukon territory is commemorating the event with a series of highly publicized celebrations throughout the year as part of its "Rendezvous 92" celebration. As Canadian officials anticipate a large influx of U.S. visitors, it is worthwhile for U.S. citizens to keep in mind potential problems when traveling in the far north.

The Frontier: The Yukon is definitely frontier territory. Facilities for car repair outside of the capital, Whitehorse, are extremely limited. Almost all consumer goods must be brought in from other parts of Canada or Alaska over long distances. It is 1200 miles from Edmonton to Whitehorse and 1500 miles from Vancouver to Whitehorse. The cost of food, gas, etc. can be triple what it would be in the U.S.

The Highway: The Alcan highway runs from Edmonton, Alberta, through British Columbia (Dawson Creek, Fort St. John, Fort Nelson) through the Yukon (Watson Lake, Whitehorse) and into Alaska. For most of its length it is a two or four lane divided highway. Most of it is in good condition and previously rough sections have been repaired for the celebrations. The distances are vast. The highway runs through some spectacularly beautiful areas, but much of the area is essentially uninhabited. Even during peak tourist season, traffic outside of towns can be very sparse.

Lodging: A full range of camping and motel lodging can be found in the Yukon. Further away from population centers, the facilities can range from primitive to non-existent. Several new motels and campgrounds are opening this year, but travelers are advised to have confirmed reservations, especially for the Whitehorse area, during the peak summer months.

Medical Care: As with car repair, medical facilities are extremely limited outside of Whitehorse. Care can be expensive and most hospitals and clinics will insist on payment before discharge. While some (but not all) now accept Visa or Mastercard, most will not wait for payment from insurance companies. Problems with collecting bills from Americans have made medical institutions increasingly cautious. Travelers should check to make sure their medical and auto insurance covers them while in Canada. In many instances a supplemental policy is required.

Firearms: While not limited to the Yukon, all travelers to Canada should keep in mind Canada's extremely strict laws regarding firearms. In general, handguns are not permitted in Canada. Canadian law requires that officials must confiscate guns from anyone crossing the border who denies having a gun in his/her possession. The confiscated guns are never returned. It is possible to take hunting rifles into Canada under certain circumstances. Anyone considering it should contact the nearest Canadian consulate in advance for detailed information and instruction. In all cases, travelers should declare any firearms in their possession to Canadian customs authorities when entering Canada. If the traveler is denied permission to bring the firearm into Canada, in many cases there are facilities near the border crossing where firearms could be surrendered and stored pending the traveler's return to the U.S.

Information: For further information/assistance U.S. citizens traveling to "Rendezvous 92" may contact the Consular Section of the U.S. Consulate General at 1075 West Georgia St., Vancouver, Canada V6E 4E9 at tel: (604) 685-4311. Those traveling to eastern Canada may contact the Consular Section of the U.S. Embassy at 100 Wellington St., Ottawa, Canada K1P 5T1 at tel: (613) 298-5335.

No. 92-016

This advisory alerts U.S. citizens to an increased number of cases of meningitis in eastern Canada and potential problems in the Yukon territory due to the anticipated large influx of visitors for "Rendezvous 92."

02/05/92

14139

NO. 469

P882/886

*NO STATE DEPT
TRAVEL ADVISORY*

TRAVEL ADVISORY - CANADA - NOTICE

1. SUMMARY: THERE HAS BEEN AN INCREASED NUMBER OF CASES OF MENINGOCOCCAL DISEASE IN SEVERAL AREAS OF EASTERN CANADA. ALTHOUGH THE RISK FOR TRAVELERS IS VERY LOW. U.S. TRAVELERS MAY WISH TO CONSIDER HAVING THEIR CHILDREN BETWEEN THE AGES OF 2 AND 14 VACCINATED AGAINST THE DISEASE. IN ADDITION, IN WESTERN CANADA, THE YUKON TERRITORY IS COMMEMORATING THE 20TH ANNIVERSARY OF THE BUILDING OF THE ALCAN HIGHWAY - ITS "RENDEZVOUS '92". U.S. TRAVELERS PLANNING TO ATTEND "RENDEZVOUS '92" SHOULD BE AWARE OF AND TAKE APPROPRIATE PRECAUTIONS RELATED TO TRAVEL IN THE FAR NORTH. END SUMMARY.

and the Quebec and Ontario Health Ministers

2. MENINGITIS: THE U.S. CENTERS FOR DISEASE CONTROL HAVE ISSUED A HEALTH ALERT CONCERNING THE INCREASED NUMBER OF CASES OF MENINGOCOCCAL DISEASE IN SEVERAL AREAS OF EASTERN CANADA. THE AFFECTED AREAS INCLUDE

THE OTTAWA-CARLTON AREA, THE LAURENTIDES REGION NORTH OF MONTREAL, THE LANAUDIERE REGION, THE OUTAOUAIS AREA IN WEST QUEBEC, AND PRINCE EDWARD ISLAND. AS A PREVENTIVE MEASURE, A PROGRAM OF VACCINATION IS BEING INSTITUTED FOR CHILDREN IN THOSE AREAS. THE RISK FOR SHORT-TERM TRAVELERS IS VERY LOW AND NO PARTICULAR PRECAUTIONS ARE NEEDED FOR THOSE TRAVELING TO THE AFFECTED AREAS FOR MOST ACTIVITIES, SUCH AS SKIING OR SHOPPING. HOWEVER, BECAUSE THE NUMBER OF CASES AMONG SCHOOL-AGED CHILDREN IS SUBSTANTIALLY ABOVE NORMAL, VACCINATIONS SHOULD BE CONSIDERED FOR CHILDREN 2 THROUGH 14 YEARS OF AGE TRAVELING TO THE AFFECTED AREAS IF THEY WILL BE IN VERY CLOSE PHYSICAL CONTACT WITH LOCAL SCHOOL-AGED CHILDREN, OR WILL BE STAYING MORE THAN THREE DAYS AND EXPECT TO HAVE SOCIAL CONTACT WITH LOCAL SCHOOL-AGED CHILDREN. IDEALLY, THE VACCINE SHOULD BE ADMINISTERED AT LEAST 30 DAYS BEFORE TRAVEL. VACCINATION IS NOT RECOMMENDED FOR CHILDREN UNDER TWO YEARS OF AGE, AND ADULTS ARE CONSIDERED AT VERY LOW RISK. FOR FURTHER INFORMATION, CONTACT THE CENTERS FOR DISEASE CONTROL'S INTERNATIONAL HOTLINE AT (404) 288-4889.

3. RENDEZVOUS '78: 1978 MARKS THE 80TH ANNIVERSARY OF THE BUILDING OF THE ALCAN HIGHWAY. THE YUKON TERRITORY IS COMMEMORATING THE EVENT WITH A SERIES OF HIGHLY PUBLICIZED CELEBRATIONS THROUGHOUT THE YEAR AS PART OF ITS "RENDEZVOUS '78" CELEBRATION. AS CANADIAN OFFICIALS ANTICIPATE A LARGE INFLUX OF U.S. VISITORS, IT IS

WORTHWHILE FOR U.S. CITIZENS TO KEEP IN MIND POTENTIAL PROBLEMS WHEN TRAVELING IN THE FAR NORTH.

4. THE FRONTIER: THE YUKON IS DEFINITELY FRONTIER TERRITORY. FACILITIES FOR CAR REPAIR OUTSIDE OF THE CAPITAL, WHITEHORSE, ARE EXTREMELY LIMITED. ALMOST ALL CONSUMER GOODS MUST BE BROUGHT IN FROM OTHER PARTS OF CANADA OR ALASKA OVER LONG DISTANCES. IT IS 1200 MILES FROM EDMONTON TO WHITEHORSE AND 1500 MILES FROM VANCOUVER TO WHITEHORSE. THE COST OF FOOD, GAS, ETC. CAN BE TRIPLE WHAT IT WOULD BE IN THE U.S.

5. THE HIGHWAY: THE ALCAN HIGHWAY RUNS FROM EDMONTON, ALBERTA, THROUGH BRITISH COLUMBIA (DAWSON CREEK, FORT ST. JOHN, FORT NELSON) THROUGH THE YUKON (WATSON LAKE, WHITEHORSE) AND INTO ALASKA. FOR MOST OF ITS LENGTH IT IS A TWO OR FOUR LANE DIVIDED HIGHWAY. MOST OF IT IS IN GOOD CONDITION AND PREVIOUSLY ROUGH SECTIONS HAVE BEEN REPAIRED FOR THE CELEBRATIONS. THE DISTANCES ARE VAST. THE HIGHWAY RUNS THROUGH SOME SPECTACULARLY BEAUTIFUL AREAS, BUT MUCH OF THE AREA IS ESSENTIALLY UNINHABITED. EVEN DURING PEAK TOURIST SEASON, TRAFFIC OUTSIDE OF TOWNS CAN BE VERY SPARSE.

6. LODGING: A FULL RANGE OF CAMPING AND HOTEL LODGING CAN BE FOUND IN THE YUKON. FURTHER AWAY FROM POPULATION CENTERS, THE FACILITIES CAN RANGE FROM PRIMITIVE TO

NON-EXISTENT. SEVERAL NEW HOTELS AND CAMPGROUNDS ARE OPENING THIS YEAR, BUT TRAVELERS ARE ADVISED TO HAVE CONFIRMED RESERVATIONS, ESPECIALLY FOR THE WHITEHORSE AREA, DURING THE PEAK SUMMER MONTHS.

7. MEDICAL CARE: AS WITH CAR REPAIR, MEDICAL FACILITIES ARE EXTREMELY LIMITED OUTSIDE OF WHITEHORSE. CARE CAN BE EXPENSIVE AND MOST HOSPITALS AND CLINICS WILL INSIST ON PAYMENT BEFORE DISCHARGE. WHILE SOME (BUT NOT ALL) NOW ACCEPT VISA OR MASTERCARD, MOST WILL NOT WAIT FOR PAYMENT FROM INSURANCE COMPANIES. PROBLEMS WITH COLLECTING BILLS FROM AMERICANS HAVE MADE MEDICAL INSTITUTIONS INCREASINGLY CAUTIOUS. TRAVELERS SHOULD CHECK TO MAKE SURE THEIR MEDICAL AND AUTO INSURANCE COVERS THEM WHILE IN CANADA. IN MANY INSTANCES A SUPPLEMENTAL POLICY IS REQUIRED.

8. FIREARMS: WHILE NOT LIMITED TO THE YUKON, ALL TRAVELERS TO CANADA SHOULD KEEP IN MIND CANADA'S EXTREMELY STRICT LAWS REGARDING FIREARMS. IN GENERAL, HANDGUNS ARE NOT PERMITTED IN CANADA. CANADIAN LAW REQUIRES THAT OFFICIALS MUST CONFISCATE GUNS FROM ANYONE CROSSING THE BORDER WHO DENIES HAVING A GUN IN HIS/HER POSSESSION. THE CONFISCATED GUNS ARE NEVER RETURNED. IT IS POSSIBLE TO TAKE HUNTING RIFLES INTO CANADA UNDER CERTAIN CIRCUMSTANCES. ANYONE CONSIDERING IT SHOULD CONTACT THE NEAREST CANADIAN CONSULATE IN ADVANCE FOR

DETAILED INFORMATION AND INSTRUCTION. IN ALL CASES, TRAVELERS SHOULD DECLARE ANY FIREARMS IN THEIR POSSESSION TO CANADIAN CUSTOMS AUTHORITIES WHEN ENTERING CANADA. IF THE TRAVELER IS DENIED PERMISSION TO BRING THE FIREARM INTO CANADA, IN MANY CASES THERE ARE FACILITIES NEAR THE BORDER CROSSING WHERE FIREARMS COULD BE SURRENDERED AND STORED PENDING THE TRAVELER'S RETURN TO THE U.S.

9. INFORMATION: FOR FURTHER INFORMATION/ASSISTANCE U.S. CITIZENS TRAVELING TO RENDEZVOUS '92 MAY CONTACT THE CONSULAR SECTION OF THE U.S. CONSULATE GENERAL AT 1075 WEST GEORGIA ST., VANCOUVER, CANADA V6E 4E9 AT TEL: 604-685-4311. THOSE TRAVELING TO EASTERN CANADA MAY CONTACT THE CONSULAR SECTION OF THE U.S. EMBASSY AT 300 WELLINGTON ST. OTTAWA, CANADA K1P 5T3 AT (613) 238-5338.

10. REVIEW DATE: AUGUST 3, 1998.

11. THIS ADVISORY ALERTS U.S. CITIZENS TO AN INCREASED NUMBER OF CASES OF MENINGITIS IN EASTERN CANADA AND POTENTIAL PROBLEMS IN THE YUKON TERRITORY DUE TO THE ANTICIPATED LARGE INFLUX OF VISITORS FOR "RENDEZVOUS '92".

FOLLOWING ARE SUGGESTED REVISIONS OF SECTIONS 4, 5 and 6 OF THE ADVISORY.

4. THE FRONTIER: THE YUKON MAY BE CONSIDERED FRONTIER TERRITORY IN MANY AREAS. FACILITIES FOR CAR REPAIR, WHILE GENERALLY ADEQUATE, MAY SOMETIMES BE LIMITED OUTSIDE OF THE LARGER COMMUNITIES. BECAUSE OF DISTANCE FROM MAJOR POPULATION CENTERS, PRICES ARE HIGHER THAN IN THE CONTINENTAL UNITED STATES. GASOLINE COSTS AVERAGE \$2.19 PER U.S. GALLON. LUNCH IN A TYPICAL SMALL COMMUNITY LIKE TESLIN RUNS FROM \$3.00 TO \$7.00, WHILE DINNER IS \$5.00 TO \$17.00.

5. THE HIGHWAY: THE ALASKA (FORMERLY THE ALCAN) HIGHWAY STARTS IN DAWSON CREEK, B.C. AND RUNS NORTH AND WEST THROUGH FT. ST. JOHN, FT. NELSON TO THE YUKON TERRITORY TOWNS OF WATSON LAKE, THE CAPITAL CITY OF WHITEHORSE AND ON INTO ALASKA, ENDING AT FAIRBANKS, NEARLY 1,500 MILES FROM ITS BEGINNING. FOR MOST OF ITS LENGTH IT IS A TWO OR FOUR LANE DIVIDED HIGHWAY. MOST OF IT IS IN GOOD CONDITION, AND PREVIOUSLY ROUGH SECTIONS HAVE BEEN REPAIRED FOR THE CELEBRATIONS. DISTANCES ARE VAST. THE HIGHWAY RUNS THROUGH SOME SPECTACULARLY BEAUTIFUL COUNTRY, BUT MUCH OF IT IS SPARSELY INHABITED. GAS STATIONS AVERAGE AROUND 50 TO 60 MILES APART, WITH THE LONGEST STRETCH BEING ABOUT 97 MILES. ALMOST EVERY COMMUNITY PROVIDES MEDICAL SERVICES, WITH THE LONGEST STRETCH BETWEEN FACILITIES BEING ABOUT 150 MILES.

6. LODGING: A FULL RANGE OF CAMPING AND MOTEL LODGING CAN BE FOUND IN THE YUKON. FURTHER AWAY FROM POPULATION CENTERS, HOWEVER, FACILITIES CAN RANGE FROM RUSTIC TO PRIMITIVE. SEVERAL NEW MOTELS AND CAMPGROUNDS ARE OPENING THIS YEAR, BUT AS WITH ALL DESTINATION ROUTES TRAVELERS ARE ADVISED TO MAKE RESERVATIONS -- PARTICULARLY DURING THE PEAK MONTH OF JULY. IT MIGHT ALSO BE WISE TO PLAN TRAVEL EITHER A LITTLE EARLIER OR A LITTLE LATER THAN PEAK SEASON. BOTH LATE MAY AND EARLY SEPTEMBER CAN

BE BEAUTIFUL AND RELAXED TIMES TO VISIT ALASKA AND THE YUKON.