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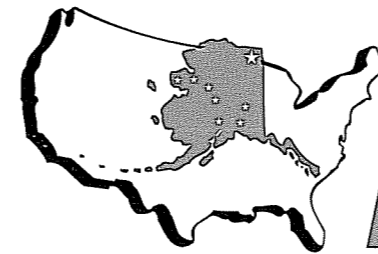
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Resource Review

February 1992

Battle for economic and environmental balance

Will the American economy survive environmental politics?

Part II

The ever-tightening grip of the current recession is slowly strangling America's economy, thousands are losing their jobs, and key industries are moving abroad. And yet faced with the most dismal set of economic facts since the 1940s, America's leaders still place environmental politics above sound resource development and its positive impact on the economy.

Consider the following:

- Barely six months after the U.S. fought a war to preserve access to Middle East oil fields, the U.S. Senate refused to vote on a comprehensive energy bill

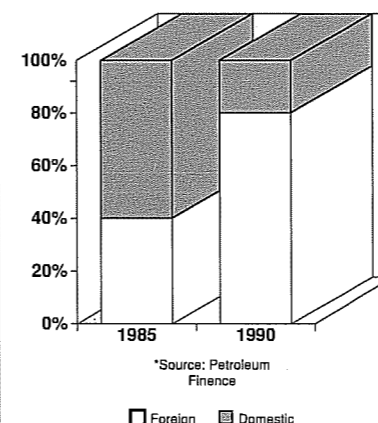
which would put 735,000 Americans to work, reduce the trade deficit and improve national security.

- Over the protests of Alaska's congressional delegation and the state, the U.S. Congress has placed 90 percent of the Tongass National Forest off-limits to timber harvesting. Now the U.S. Forest Service proposes further reductions in the amount of land open for timber harvesting and mining operations. The new land withdrawals will dramatically impede the timber and mining industry and threaten transportation and utility corridors, as well as recreational opportunities.

- Although most of the Chugach National Forest in Southcentral Alaska

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Percentage invested overseas by U.S. oil companies



Some of America's hottest energy prospects, including the Coastal Plain of the Arctic National Wildlife Refuge, remain closed to energy development, forcing the domestic oil industry to invest overseas. Developing ANWR's potential energy reserves would create 735,000 new jobs, increase the Gross National Product by \$50 billion, and generate \$325 billion in net economic benefits. Environmental impacts would be minimal with less than one percent of the refuge disturbed by development.

Reality dose: End of rainbow is near



Message from the Acting Director

by
Debbie Reinwand

Let's face facts - despite overprojected oil revenues in FY '93, a major impending budget shortfall, and the continuing decline of Prudhoe Bay, there are few champions stepping forward to say 'let's cut the state budget and here's where we should start.'

RDC is not one of those groups that has made its mark reiterating the budget cut message - rather, we have focused on the economic benefits associated with development, while preaching a more general, fiscally-conservative line when it comes to state spending. That philosophy isn't going to change in the near term - we won't be handing out state budget plans with our handiwork on them. That approach is best left to the groups that exist purely for the cause of budget reform.

If our budgeteers insist on spending as much as Alaska earns each year, then the policymakers need to look to the revenue source and make sure it is stabilized and encouraged to grow.

What RDC is bringing front and center to its agenda, however, is the message that the state of Alaska needs to do more to encourage business to invest in the 49th state, or we can kiss good-bye any pot of gold Alaskans may believe is at the end of the rainbow.

The smaller businesses and pro-development organizations of Alaska have known the tide is turning away from this state for some time - companies are pulling out, contracts are being cut or eliminated, and the amount of money that once circulated through our economy from resource developers is shrinking at an alarming pace. A case in point is the consolidation of ARCO and BP Exploration's operations at Prudhoe Bay. At a recent

RDC breakfast meeting, representatives of the two major companies told how consolidation has helped eliminate expensive duplication of functions at Prudhoe. This trend will continue in the coming years, and will hopefully, result in cost-effective production of the oil.

RDC will be working with the legislature to ensure that policymakers consider statutory changes that promote investment and development, in an attempt to halt the outflow of businesses from this state.

However, the two companies set the savings of this consolidation at \$30 to \$55 million per year. What that means is those funds are being saved in-house through employee reductions, etc., and within the service sector that supplies the oil companies. Translation: Alaska support industries are being hit and will continue to see reductions in the amount of money cycled to them by the major companies. BP's President Julian Darley made that point imminently clear when he recently announced that the number of service companies his organization contracts with will be cut in half during coming years.

It is reality check time. No longer can state policymakers close their eyes just one more year and hope to scrape through with enough dollars to meet constituent needs. If our budgeteers insist on spending as much as Alaska earns each year, then the policymakers need to look to the revenue source and make sure it is stabilized and encouraged to grow. And we all know that the basis for Alaska's revenue source is resource development.

1992 is an election year and everyone in the Legislature must seek the voter's nod of approval. If I were a candidate for elected office, I would do everything in my power to encourage business investment in Alaska, particularly through legislative changes that will provide incentives to developers.

Alaska is at a critical crossroads in terms of economic growth. This state is losing key business players who employ hundreds of Alaskans. RDC will be working with the legislature to ensure that policymakers consider statutory changes that promote investment and development, in an attempt to halt the outflow of businesses from this state. Please join us as we strive for positive change. Our jobs and businesses depend on it.

The Resource Development Council (RDC) is Alaska's largest privately funded nonprofit economic development organization working to develop Alaska's natural resources in an orderly manner and to create a broad-based, diversified economy while protecting and enhancing the environment.

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Writer & Editor
Carl Portman



Ground shifting in battle for balance

(Continued from page 5)

"Environmentally, the service's decision makes sense, economically it stinks," he continued. "In the present conflict, we have to strike a better balance."

Ironically, the ESA is almost universally considered a failure. Preservationists claim it has not saved enough ecosystems or species.

"The real failure of the Endangered Species Act is its failure to embrace and adjust for mankind's place in the natural environment," said PLF's Burling. "A law that pretends that humans are not part of nature, and that refuses to permit consideration of human needs is an immoral law, period."

* * * * *

An indication that the ground is shifting comes from House Speaker Tom Foley who asked congressional scientific committees last fall to review the act with its economic effects in mind. And late in the first session of the 102nd Congress, Representative William Dannemeyer, R-CA, introduced legislation to amend the ESA "to require the preparation of economic impact analyses with respect to certain actions" to protect endangered and threatened species.

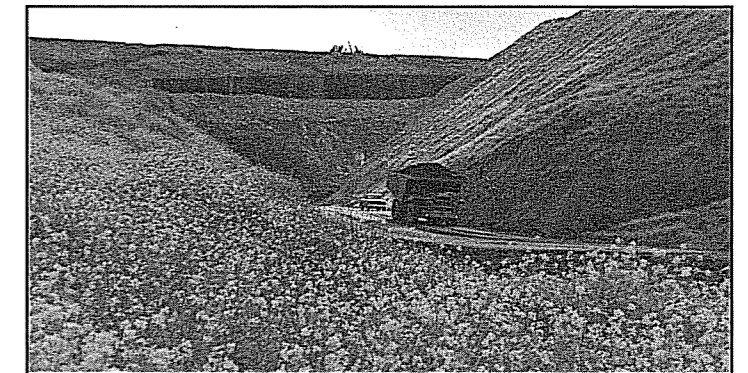
Called the Balanced Economic and Environmental Priorities Act of 1991, the bill requires the Secretary of the Interior to prepare an economic impact analysis before a designation, regulation or recovery plan can be implemented or enforced under the ESA.

The economic impact analysis is intended to determine ESA impacts such as potential job losses, property and business devaluation, and the loss of government tax revenues. The bill also places a limitation of economic losses caused by the listing of an endangered or threatened species, and provides compensation for economic loss, including a lost job.

However, the proposed Balanced Economic and Environmental Priorities Act is not the solution to the ESA, according to Rep. Robin Taylor, R-Wrangell.

"I personally hold little hope that the Band-Aid of the Balanced Economic and Environmental Priorities Act will in anyway suture the hemorrhages occurring in the Pacific Northwest and will do little or nothing to remedy current or future losses that will be suffered by the people of Southeast Alaska," Taylor said. The Minority Leader called for outright repeal of the ESA and the "plethora of anti-human environmental legislation" approved by Congress over the past 20 years.

RDC has long decried the extremes to which public policy has been taken — using examples such as the spotted owl issue and the Endangered Species Act. "Taken in the proper context, some pro-environment legislation serves a legitimate purpose," said RDC Acting Director Debbie Reinwand. "The problem generally occurs in the form of regulation gone awry, legislation passed hastily and emotionally, and inevita-



A stable tax and regulatory climate for industry would encourage new resource development, broadening Alaska's economic base as Prudhoe Bay revenues begin a steady decline.

bly, the perpetual lawsuits being filed by non-development groups under the guise of the public interest." RDC will continue to fight excessive regulatory and legislative burdens, especially those that are as far-reaching as the ESA, she said.

* * * * *

When oil dollars, which now fund over 85 percent of the state budget, are no longer available to pay for education, health care facilities, a wide variety of social programs, government operations and environmental protection programs, what will make up the difference?

"Our vital services are not paid with the people's money, but with the people's minerals," Hickel reminded Alaskans in his State of the Budget address. "It does not come from our pockets, it comes from our Prudhoes."

But access to Alaska's resources is becoming more difficult. Consider the dilemma facing the timber industry.

Alaska contains about 45 million acres of forested land — 16 percent of the total in the United States. With only a fraction in private ownership, most of the towering trees are owned by the state and federal government and have been placed in conservation system units where cutting is either prohibited or sharply restricted. Trees are becoming a sacred cow in Alaska, despite their renewable nature.

But a stable taxation and regulatory climate for industry could change Alaska's entire financial outlook, according to John Rense, Vice President of Resources for NANA Regional Corporation.

"A big unknown in Alaska is the oil potential of the state's many onshore sedimentary basins," Rense noted. "The approaching decline in North Slope crude oil production need not be final, but to date, about the only thing the state has done to enhance its revenue from the petroleum industry is to raise taxes."

Rense explained that "the actions of the governor and the Legislature, by the choices they make to promote or hinder development, will directly determine what new resources are brought on line."

"Industry is in business to produce and it goes where it is welcome — a stable, fair-minded place to operate," Rense added. "The time has come to apply economics, new clean technologies and commonsense into the EIS and permitting process."

Biodiversity takes America a giant step beyond Endangered Species Act

Try to imagine the absolute, most devastating legislation that could ever affect a community. It would be worse than "no net loss" of wetlands, and worse than locking up land to protect all threatened or endangered species.

It's called biodiversity — the buzzword that takes America a giant step beyond the provisions of the Endangered Species Act.

"Today's screams for biodiversity, like yesterday's screams against the industrial revolution, are nothing but the latest rallying cry for those who are afraid of — and therefore opposed to — growth, business and people," said Jim Burling, an attorney with the Pacific Legal Foundation.

"Biodiversity is a stalking horse for federal national land use zoning," Burling said.

Language in several congressional bills would guarantee "the full range of variability among living organisms and the natural communities in which they occur."

The idea is that the biological diversity of a particular area would have to be fully assessed in environmental impact statements when federal projects are proposed.

"What this means is that there will be no such thing as an end to the environmental lawsuits that will be filed," said Paula Easley, Government Relations Director of the Municipality of Anchorage.

A national policy of biodiversity preservation will see virtually all land under federal control, Easley warned.

"Federal land planners — not the people in our communities with the most at stake — will decide when, where, how and if local land can be used. As with the Endangered Species Act, the law will help them decide it cannot."

In a December presentation before the National League of Cities annual meeting in Las Vegas, Easley warned the biodiversity movement "is really about getting control of what happens on private land, about destroying private property rights."

RDC Briefs

RDC wants Alaska hearing on national landmarks

RDC has requested that the National Park Service hold hearings in Alaska for the National Natural Landmark Program.

Alaska has nearly 4 million acres of land that have been designated as National Natural Landmarks, and there are 30 million additional acres listed by the Park Service as potential National Natural Landmarks. As far as RDC is aware, the initial 4 million acres were designated without public hearings.

RDC will be commenting on the proposed regulations, which will require that property owners be notified before property is evaluated as a National Natural Landmark, and that owner consent be obtained before an area is designated. In addition, the changes would preclude use of information obtained through trespass.

RDC will also request that existing files be purged of illegally-gathered data, and that areas be removed from the list of designated landmarks or potentially designated landmarks, unless there was express written owner permission and all data was collected in a lawful manner.

Alaska economy will be flat

Neal Fried, an economist for the Alaska Department of Labor, told a packed house at RDC's January 23 breakfast that in his opinion the Alaska economy would be flat in the next couple of years.

Fried said the economy, "may be up a little bit or down a little bit", but the Alaska economy never moves sideways and almost always has a "surprise" around the bend.

According to Fried, the big employment losers in coming years will be oil and state and local government.

Timber, fishing, federal government and the service industry have possibilities for growth but no firm evidence is at hand, he said.

Fried categorized hard-rock mining, tourism, retail trade and transportation as "winners" for the economy.

Update on Mental Health Trust Lands

Jeff Jessee, an Attorney with Advocacy Services, addressed a standing-room-only crowd at RDC's January 16 breakfast regarding the heated Mental Health Trust Lands litigation.

The settlement reached between the Hickel administration and Jessee's clients includes: (1) a reconstitution of the original land trust with lands matching the original land trust as closely as possible and (2) establishment of procedures requiring the state of Alaska, as trustee, to act properly when dealing with the trust.

The Alaska Legislature passed a bill in 1991 to allow the state to proceed with the settlement.

In Jessee's view, the proposed settlement achieves at least as many benefits as could be achieved if the case were litigated. In addition, the current Administration sees the increased potential for development of mental health trust lands as a benefit to the State.

Fair, balanced approach needed in raising new revenues

For the past decade, many people have called for reductions in state spending. Prudhoe's decline was a question of when, not if. Now it appears that relatively low oil prices could create a state budget revenue shortfall this year. Since oil prices are looking weak and production declines are beginning, this may only be the first of many years in which oil revenues will not match state spending plans. This issue of high state costs and declining revenue will finally have to be dealt with. The cost side will not be easy — four governors of very different philosophies have struggled with this — but soon shortfalls will make cost reductions more politically expedient. Eventually, however, cost reduction will probably not be enough unless new money is raised.

There are still many ways for the state to get new revenue. When the time comes to raise new money, the state must adopt a fair, balanced approach. The traditional resource industries, including oil, fish, timber and mining simply cannot shoulder the increased load. The fact is that all of these Alaskan industries are facing uphill battles in the world marketplace.

The public and the state's leadership need to understand the importance of stability to the resource industry. Without stability, we will not have much industry, period. Stability is not easy to find as revenues fluctuate and political leadership changes. Policy leaders need to take this issue to heart. We must have a solid commitment to maintain reason-



Thoughts from the President

by
John Rense

able, stable tax rates as Prudhoe declines.

Resource industry people live and work in this state. We need to help seek solutions and improvements on both the cost and revenue side of state government. We will be more successful if we propose politically realistic win/win situations. As individuals, we need to help define and direct state resources to those issues that really matter to us as a people. We need to help our state avoid allocating increasingly scarce dollars to every cause, regardless of merit.

For the past decade, too many critics of state spending were focused on reducing the other guy's budget. As we enter the Prudhoe decline era, let us focus on what really matters — the enhancement of those things important to our society, including our ability to generate meaningful employment. If there was ever a time for balance and fairness, it is now.

Latest ANWR effort fails in Senate

Election year politics lead to stacked deck on ANWR drilling

The latest effort to gain a fresh vote on opening the Coastal Plain of the Arctic National Wildlife Refuge to oil exploration failed when six key Democratic senators blocked consideration of an amendment that would have included an ANWR drilling provision in newly proposed energy legislation now before the Senate.

"We feel we were denied a fair vote on the issue, an up-or-down vote," Senator Frank Murkowski said. "One can conclude the Democrats across the aisle don't care about jobs, the GNP, and balance of payments."

Murkowski abandoned the effort to gain a vote on the ANWR issue when anti-drilling forces vowed to filibuster any energy legislation that included opening ANWR to drilling. The same controversy over drilling in ANWR stalled the energy bill in the Senate last November, prompting the measure's sponsors to delete any ANWR drilling provision

from the new energy legislation.

Since 1992 is an election year for many senators, and ANWR being the top issue for the environmental lobby, the chances of an ANWR amendment passing the Senate was a long shot. Many senators were not willing to risk the wrath of the environmental lobby to cast a pro-ANWR vote in what they perceived as a losing effort. There appears to be little hope now for reviving the issue until a new Congress is seated next year.

Drilling in ANWR could yield billions of barrels of oil, a \$50 billion increase in the gross national product, 735,000 jobs nationwide and \$125 billion in revenues to federal and state governments. In addition, developing ANWR's potential oil deposits could save the U.S. over \$250 billion in payments to foreign oil producers, while disturbing less than 1% of the refuge.

Overzealous regulations hamper efforts to revive economy

(Continued from cover)

is closed to timber harvesting, the Forest Service is pursuing a revision to its management plan that will close additional lands to multiple uses.

- ARCO Alaska has dismissed 250 workers. Amoco is closing its Anchorage office and Shell Western is leaving Alaska. BP is reducing its staff while Chevron is closing its refinery and selling Alaska properties. Why? Unfavorable taxation policies, a heavy regulatory burden and massive land withdrawals play a part in deciding where capital for future exploration and development will be invested.

In the Lower 48 states:

- Congress appears ready to add 18 million acres to the 94 million already in the nation's wilderness system.

- Throughout the nation, multi-billion dollar projects have been stopped dead in their tracks, whether they be a water supply facility for 40 communities or repair of a dangerous bridge, in the name of the Endangered Species Act.

- As many as 100,000 jobs and



Alaska Pulp Corporation has millions of board feet of timber tied up in litigation.

"Intelligent regulation of industry is based on facts, global comparisons and cost-benefit calculations. Effective regulations protect citizens and the environment while still encouraging future industry involvement."

- George Hermiller
President, Alyeska Pipeline Service Company

the Pacific Northwest timber industry may be sacrificed to preserve habitat for the spotted owl.

- In California, developers claim more than \$6 billion is at stake in the listing of a bird called the gnatcatcher on the Endangered Species List. And while it is saving the gnatcatcher, California must look out for the Sacramento Delta smelt at an estimated \$12 billion.

* * * *

While it would be wrong to suggest environmentalism is to blame for all of America's economic woes, overzealous and unchecked environmental policy and regulation is a growing burden on struggling industries and local communities, costing Americans jobs, money and opportunities. Will there be no end to environmental lawsuits, making it ever more difficult to build a road, harvest a tree, offer a job or construct a visitor facility for tourists in Alaska?

In his recent State of the Budget address, Governor Walter J. Hickel pointed out that "every time we take a step to diversify, we are criticized, we are picketed, we are sued ... usually in the name of the environment." Hickel criticized environmentalists as being unconcerned with "people needs."

"What has the Sierra Club ever done for the poor, the hungry, the homeless and the unemployed?" the Governor asked.

Lawsuits charging federal agencies with inadequate environmental impact studies of logging and mineral exploration sites have continued unabated despite

conservation gains. Continued court fights tie up resource development projects for years while government and environmental lawyers trade volleys. In some cases, litigation ties up parcels released to logging companies, consuming the time of Forest Service personnel, preventing them from opening other lands.

For example, Alaska Pulp Company has asked a federal appeals court to partially lift a ban on logging to keep the company's mills supplied through spring. The company has millions of board feet of timber tied up in litigation.

The court last spring issued an injunction against logging after the Sierra Club appealed a federal District court ruling in favor of Alaska Pulp and the U.S. Forest Service. "If the volume is not released, it won't matter if we eventually win or lose the case because we will be out of timber," said George Woodbury, Vice President of Operations at Alaska Pulp.

"We're at the point that we need to have more timber or there will be reductions and layoffs at company mills."

* * * *

In a speech before the Fifth International Winter Cities Biennial in Montreal, Anchorage Mayor Tom Fink warned "we are in danger of reducing our quality of life as individuals not because we are destroying the environment, but because we are overprotecting it." Fink said "the federal government, in its great desire to protect the

environment from the people who live in it and enjoy it, has set forth unrealistic regulations."

James Hermiller, President of Alyeska Pipeline Service Company, suggests that Alaska begin taking a good hard look at the benefits and costs of various regulatory proposals. He said regulatory controls should not be required merely because technology exists to do the job. Hermiller said agencies must consider benefits versus costs.

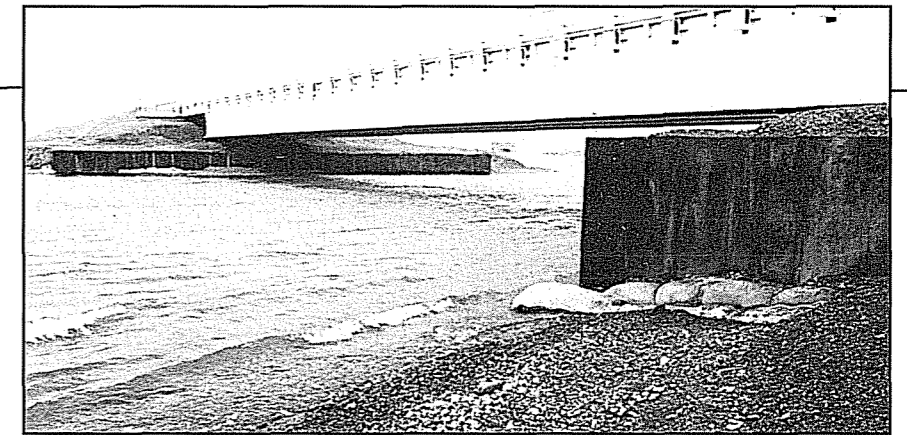
"The tendency for governments that own the resources is to build up a big bureaucracy and require private industry to spend like there is no limit to corporate resources," said Hermiller in a recent speech before the Anchorage Chamber of Commerce. "Yet investment capital is not an unlimited commodity."

The Alyeska president warned that a nation or state that has a reputation for such excesses in non-productive regulation does not encourage further investment by enterprising individuals who do have the choice of doing business elsewhere.

"Intelligent regulation of industry is based on facts, global comparisons and cost-benefit calculations," Hermiller explained. "Effective regulations protect citizens and the environment while still encouraging future industry involvement."

President Bush, responding to complaints from businessmen that federal red tape is becoming burdensome, has called for a three-month freeze on a wide array of new federal regulations as part of an economic growth package. While Bush's move would do little to jump-start the economy, it does signal a helpful change in direction. The proposal would direct all federal agencies to review existing regulations to see whether their goals could be met in a less burdensome or costly way.

Politicians, reacting to constituent complaints about the economy, are beginning to focus on what some consider environmental overreaching. Consider



Operators of the West Dock and Endicott causeways at Prudhoe Bay are being forced to install 1,300 feet of additional breaching at a cost of \$60 million. The companies contend there is no evidence that the existing causeways have harmed fish. The Endicott causeway, which already contains considerable breaching, is shown above.

the dynamics around the race for the U.S. Senate in Oregon. Incumbent Bob Packwood, a past champion of the environment, says he'll fight for loggers and other resource users, and against the excesses of the Endangered Species Act (ESA). As the political campaign unfolds, the ESA itself comes up for renewal in Congress in a battle that promises to be the mother of all environmental skirmishes.

Senior Oregon Senator Mark Hatfield predicts the act will come under increasing fire as its effects spread beyond the Northwest. Hatfield, one of the act's original sponsors, warns "it is being applied far beyond the scope of what any of us who helped adopt it intended." The act has moved from outlawing the wanton extinguishment of a species to forbidding the disturbance of vast habitat lands.

The ESA protects virtually every species that crawls, walks, flies, or grows in some roadside ditch. The potential costs of enforcing the act are enormous. Most of the direct funds are being consumed by hyped species such as the spotted owl, but "recovery" of the thousands of species listed is estimated to run nearly \$5 billion over 10 years, and that doesn't take into account the tremendous economic losses suffered when private and public projects must be stopped.

The Supreme Court has ruled "the plain intent of Congress" in passing the 1973 law was that extinction be

stopped at all costs. However, in a government of the people, there is a limit to costs. The sacrifice of tens of thousands of jobs for an owl may have been the symbolic breaking point.

"It is the height of anti-human arrogance to throw somewhere between 30,000 and 100,000 people out of work for an owl which might not be endangered," said Jim Burling, an attorney with the Pacific Legal Foundation (PLF). "When the biologists get through with listing every potentially threatened species, we could be talking about putting millions of people out of work."

Chuck Stone, a syndicated columnist for the Newspaper Enterprise Association, said the government's decision to enforce the ESA and ban logging in spotted owl habitat areas of the Pacific Northwest is a "fallacy of misplaced priorities." Because of the federal ban on logging, Stone estimated the government could pay out \$1.6 million a month in welfare to families while subsidizing spotted owls at a cost of \$181 million, the Interior Department's estimated value of timber lost.

"Each non-productive spotted owl, in effect, receives a subsidy of \$29,000 just for existing, while each productive logger is denied the opportunity to earn income that helps subsidize the owls," Stone said.

(Continued page 7)