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## THE TIPPING POINT

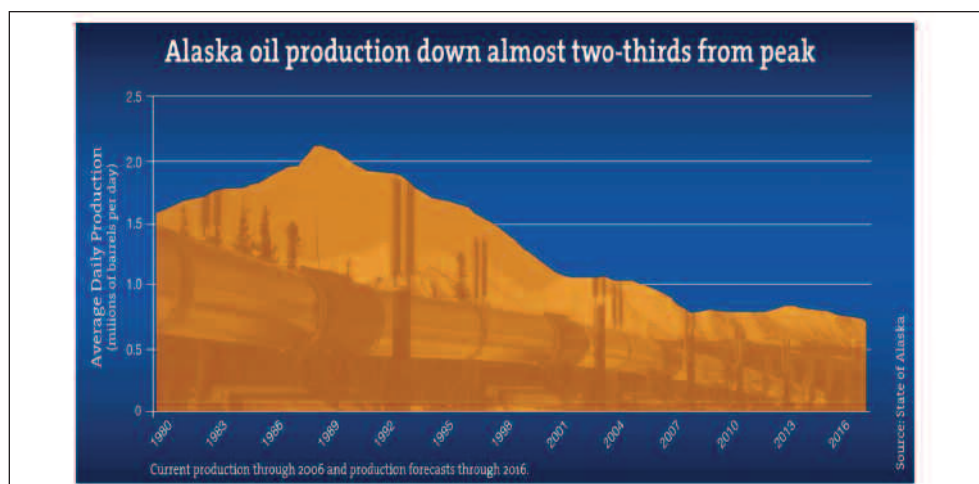
SPECIAL SESSION: HIGHER OIL TAXES COULD HAVE LASTING NEGATIVE IMPACT ON ALASKA'S ECONOMY

By Chuck Logsdon

Alaska is at a crucial decision point with respect to its economic future. Total oil production flowing through the Trans-Alaska Pipeline System has plummeted by over 65%, falling from a peak output of 2.1 million barrels per day in 1989 to current levels of less than 700,000 barrels per day.

Every Alaskan should be worried about their economic lifeline being two-thirds empty. What do most people think when their own fuel gauge indicates there is only one-third left in their tank? Don't they consider investing in a full tank at the next station? That's what Alaska needs to focus its attention on now, putting more oil in the pipeline. But that will be easier said than done.

Over the last 11 years, the oil production decline rate has averaged 6% per

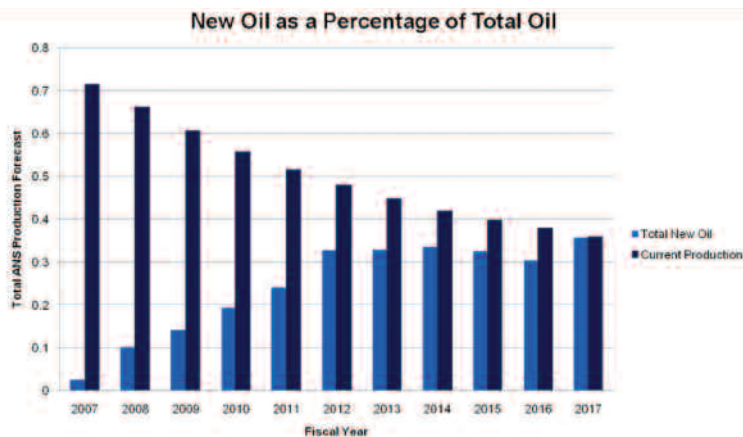


year. Without the billions of dollars invested by industry over that same period of time, the decline would have been even more severe. This investment was to develop new stand alone fields like Alpine, satellite fields, and new investment in in-

creasing the recovery from existing fields like Prudhoe and Kuparuk. The importance of further development in Alaska's legacy fields was illustrated recently by BP's Doug Suttles in a recent presentation. In those remarks he pointed out that the new investment BP made in existing fields last year added more than 70,000 barrels per day of new production. A separate field producing oil at this level would be the fourth largest in Alaska.

Production forecasts by the Alaska Department of Revenue (DOR) suggest that the future decline in production will become even more pronounced without further investment in oil fields that are not yet developed or have not been fully developed. In fact, DOR is forecasting that "by FY 2010, one-quarter of our projected oil production will come from projects requiring significant new investment" and in 10 years, approximately 50% of the oil will need to come from "new oil."

### In Ten Years, 50% of Alaska's Oil Production Will Come From "New Oil" Requiring Significant New Investment



-Department of Revenue, Revenue Sources Book, Spring 2007

(Continued to page 4)



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



# IMAGINE A 68% TAX BITE TO YOUR PAYCHECK

68%. That's a big number. If Governor Palin has her way, 68% of the value of every barrel of oil produced in Alaska will go to government.

Really? Really.

As we head into this special session on oil taxes, it's extremely important we keep this number in mind.

Imagine, your paycheck comes in, and 68% is taken to be spent by government. According to MSN Money, individual Alaskans are taxed at a rate of 27.9% on average as a percentage of income, including all federal, state, and local taxes. An increase to 68% would cause a reaction similar to that of the colonists with their tea. Their motto of *taxation without representation* was one that resonated well with the people.

Today, resource development companies pay the bulk of Alaska's taxes. Absent a fiscal plan that includes a mechanism for individuals to pay their "fair share," Alaskans are left with a system of *representation without taxation*. Alaskans vote our elected officials into office with the hope that we won't be taxed and our Permanent Fund won't be touched. Sounds great to the average Alaskan, but for businesses contemplating investing in Alaska, it's a scary message.

Alaska is currently the highest taxed oil and gas region in North America. We have three types of taxes that oil companies pay in addition to a royalty. I think it's important we differentiate between them.

What is a tax?

According to dictionary.com, a tax is: (1.) *a sum of money demanded by a government for its support or for specific facilities or services, levied upon incomes, property, sales, etc.* (2.) *a burdensome charge, obligation, duty, or demand.*

In Alaska, we have several types of taxes that are assessed on the oil industry. These include the severance tax (PPT), corporate income tax, and state and local property taxes. Last year, the PPT was set at a base rate of 22.5% which rises (up to 47.5%) as oil prices rise. Governor Palin has proposed to raise this base rate to 25% under her bill (up to 50% as oil prices rise). The corporate income tax and property taxes will not change under this bill, but their impacts to the state are no less important. Indeed, raising the PPT could result in less investment, leading to less infrastructure development, and ultimately lower property tax revenue for the North Slope Borough, Valdez, and other communities throughout the state. Guess what happens next—they will rely more on the state to provide services that are today offset by local property taxes.

What is a royalty?

Again, according to dictionary.com, a royalty is *a compensation or portion of the proceeds paid to the owner of a right, as a patent or oil or mineral right, for the use of it.*

In Alaska, royalties are determined by the terms of the individual lease contracts, which are signed *prior to* extensive exploration, development, and risky investment. Basically, a leaseholder commits to give the state a share of anything it finds and produces on the land. This amount in Alaska is usually 1/8th (12.5%) or 1/6th (16.67%) and cannot be changed unless both sides agree.

In sum, between taxes and royalty, today this amounts to nearly 63% of every barrel of oil. So, at \$60/barrel, that would mean approximately \$37.80 goes to one form of government or another through both the aforementioned taxes and royalties.

So what's left is profit, right? Wrong. That \$22.20 is used to run day-to-day operations, employ Alaskans, buy supplies from contractors, etc. What's remains is profit.

Has profit become a dirty word?

There's nothing wrong with profit. In fact, look at the top 50 holdings of our very own Permanent Fund Corporation (<http://www.apfc.org/investments/top50.cfm>). You'll see a pattern of companies that have done well with their investors' money. Indeed, as of June 30, 2007, the \$40 billion fund has a few interesting facts I'd like to point out.

Do you know what company is the second largest stock holding of the Alaska Permanent Fund? Most of you will be surprised to discover it's ExxonMobil.

So, how is it doing? Not bad. In fact, of the top 50 stocks held by the fund, it's fifth in total return with a market value of 223% greater than what was invested. This return on investment for the state was bettered only by four companies: Total (269%), ConocoPhillips (264%), Apple (256%), and Altria (235%). Interestingly, three of the top five returns are from oil companies, (Chevron is 8th (199%) BP is 17th (161%) for those of you playing at home).

These oil companies are not only providing a return on investment to each of us through our permanent fund dividends, they're also providing good-paying jobs for Alaskans. I don't see Apple making iPods or Altria rolling cigarettes here. What investment are they making in Alaska? Among us, who do they employ?

During the AGIA discussions, Governor Palin stated in one of her weekly gasoline briefings, "Remember, it is government's role to provide INCENTIVES for the private sector to build projects. . . We are doing our best to incent the private sector." Unfortunately, changing tax policy year after year does not incent. In fact, it likely does the opposite, steering critical investment dollars away from Alaska. If the tax rates rise yet again, these companies likely will, metaphorically speaking, throw their tea into the harbor by investing elsewhere.

The special session begins October 18. Contact your legislator now and throughout the session and let them know you are concerned that increasing taxes will discourage new investment and harm Alaska's economy.



# ANOTHER TAX HIKE LOOMS FOR ALASKA'S OIL INDUSTRY

## THIRD IN THREE YEARS: ALASKA'S FISCAL STABILITY FOR NEW INVESTMENT RANKS LOW

(Continued from page 1)

The list of undeveloped projects includes areas that have significant economic, technological and logistical challenges, such as the offshore Liberty field and fields in the National Petroleum Reserve-Alaska (NPR-A). The DOR production forecasts also include fields that have not been fully developed, like the enormous heavy oil deposits overlying the legacy fields in the Prudhoe Bay and Kuparuk production units.

It is projected that there are 20 billion barrels of heavy, viscous oil on the North Slope. It will not be easy to get this oil out of the ground as it is in shallow deposits close to the permafrost zone. Making this oil flow out of the source rocks is like sucking up cold honey with a straw. The industry has made great strides in developing the technology and production techniques that will lower the cost of tapping this abundant resource, but it will still require a huge commitment of capital to fully develop the resource.

At the same time, large outlays of investment will also be needed just to keep the oil production decline at

**"Frankly, we have not said that ACES improves the investment climate. Clearly, there is going to be a larger state share and that isn't going to make the economics of projects better."**

**– Commissioner Pat Galvin  
Alaska Department of Revenue**



Daily oil production in Alaska has plummeted 65 percent from more than 2 million barrels per day. Billions of dollars in new industry investment are required to keep the production decline from accelerating. Above is the Pioneer Natural Resources' Oooguruk field, expected to come online in the first half of 2008.

Alaska's largest oil fields at Prudhoe Bay and Kuparuk from accelerating.

Where will this capital come from? It will come from oil industry profits. This can take the form of either current cash or debt to be paid from future profits. The greater the likelihood of significant profit, the more likely these investments will be made.

The Palin Administration estimates the suggested modifications to PPT would significantly raise taxes by over \$700 million. This is a significant increase and creates two disincentives to investment. First, higher taxes reduce profits and the pool of capital available to industry for investment in future production. Second, higher taxes make Alaska relatively less competitive with other petroleum areas in the world.

The proposed changes to the PPT raise tax rates at all levels of profit and even raise taxes when no profit is made at all in the case of the legacy fields. According to the DOR's own analysis, their recommended adjustments to PPT do not improve the economics of any sample project, a fact acknowledged during the state's October 2 press conference when DOR Commissioner Pat Galvin stated, "Frankly, we have

not said that ACES improves the investment climate. Clearly, there is going to be a larger state share and that isn't going to make the economics of projects better."

This tax increase is designed solely to raise more revenue, and is coming at a time of budget surpluses, with no apparent plan for addressing the issue of the state's long-term reliance on oil production to support the economy. The state continues to rely almost exclusively on oil taxes and royalties to pay for discretionary, operating and capital expenditures, averaging 85-90%. The state spending of oil-derived revenues, along with oil industry operating and investment expenditures and federal spending are the linchpins of the Alaskan economy as we currently know it, and will continue to be until we obtain revenues from a gas pipeline, which is at least a decade away.

The proposed tax increase would be the third significant increase in oil taxes since 2005. By adopting additional, higher oil taxes, Alaska risks being labeled as a fiscally unstable region, thus reducing its ability to compete for industry capital. Alaska already has the highest government take in North



As taxes on Alaska's number one industry rise, the 49th state fell to number 47 out of 50 in a Forbes Magazine ranking of the best states to do business.

**“...Large outlays of investment will be needed just to keep the oil production decline...from accelerating. Where will this capital come from? It will come from oil industry profits. The greater the likelihood of significant profit, the more likely these investments will be made.” – Chuck Logsdon**

America and a higher than average government take compared to the world's other oil producing regions. In fact, according to the Wood Mackenzie Study of June 2007, Alaska ranks 99th out of 103 in fiscal stability. We have the dubious honor of being ranked just above Russia, Bolivia, Argentina, and Venezuela. This additional tax would not improve Alaska's ranking.

The most often mentioned reason for increasing the oil tax is that revenues have fallen short of “projections” originally made for PPT. Frankly, there is no “guru” who can divine the future and as a result, projections are educated guesses. The reality is that both oil prices and production costs used in the FY 2006 fiscal note accompanying the PPT legislation have changed substantially from original estimates. Although increased costs reduced industry potential profit, PPT still brought in \$1 billion more in state revenue in FY 2007.

The PPT is a workable component of Alaska's oil fiscal system. It strikes a good balance between higher revenues to the state when industry profits are higher while at the same time providing needed incentives to encourage oil industry investment and reinvestment in Alaska's oil patch.

Remember, the goal is to get more oil in the pipeline. The current PPT is the better system to keep Alaska competitive and attract the essential investment necessary to achieve that goal.

*Chuck Logsdon was the former chief petroleum economist for Alaska and has more than 25 years experience in petroleum economics, working for six different governors.*

## **FACTS ABOUT ALASKA'S OIL & GAS INDUSTRY**

- The oil and gas industry creates more than 34,000 jobs a year in Alaska.
- Total petroleum revenues for FY 07 are projected to be over \$5 billion, an amount that has doubled since FY 04 due to high prices and changes in Alaska's tax structure. This includes property taxes paid to local communities, and deposits into the Permanent Fund.
- Projected oil and gas revenues for FY 07 will provide 89% of the state's unrestricted general fund.

### **WHERE IS THE ADDITIONAL OIL GOING TO COME FROM TO FILL OUR PIPELINE?**

- Maturing North Slope fields are in natural decline.
- The oil pipeline is currently operating at one-third capacity.
- While the price of oil is important in assessing Alaska's revenue picture, production is also a vital component of the equation. Daily production has plummeted 65% since 1988 and continues to decline by more than 6% annually.
- Billions of barrels of oil remain on the North Slope, but the resources are challenging and expensive to develop. In 10 years, 50% of Alaska's oil will need to come from new sources, requiring huge new investments from industry.

### **A HEALTHY INDUSTRY CANNOT ENDURE TAX CHANGES YEAR AFTER YEAR**

- The PPT tax system – adopted just one year ago – resulted in an additional \$1 billion in taxes last year alone. Now the industry is facing an additional \$700 million in new taxes.
- Two years ago, by administrative action, an additional \$150 million in taxes were levied against the industry.

### **WHY A THIRD TAX HIKE IN THREE YEARS IS A BAD MOVE**

- Alaska is now the highest taxed oil region in North America. When combined with other factors such as operating costs, labor, and environmental challenges, Alaska is among the highest cost regions in the world. Higher taxes will only exacerbate the challenges of rising costs and will dampen investment.
- Alaska ranks a dismal 99th out of 103 world regions in terms of tax stability. The oil industry needs a stable tax regime to move projects forward.
- Billions of dollars in new wells must be drilled to keep falling production from accelerating. Higher taxes may ultimately result in less revenue to the state as critical investment dollars needed to slow the decline in North Slope production are directed outside Alaska to other projects with better rates of return.
- Alaska can't tax its way into prosperity. To sustain its economy, Alaska needs to encourage new investment to get more oil in the pipeline.
- Where will this capital come from? It will come from industry profits. The greater the profit, the more likely these investments will be made.
- Other industries and businesses across Alaska's economic spectrum are worried higher taxes will further erode our fiscal stability. We run the risk of chilling our fragile investment climate across all resource industries.
- As investment and oil production wane under the weight of heavier taxes, all sectors in the state would experience a significant economic slowdown.
- Now is not the time to be changing the tax structure when all other factors, including the increased attention from environmental groups/global warming/litigation are working against Alaska.





*Government scientists are now forecasting two-thirds of the world's polar bears, including all in Alaska, will disappear by 2050 because of melting sea ice from global warming in the Arctic.*

## GOVERNMENT REPORTS: POLAR BEAR FATE SEALED, EVEN WITH RESTRICTIONS ON EMISSIONS

bears continue to occupy their entire range, and they and their habitats are well managed and protected by regulatory mechanisms, laws and international treaties. Worldwide, their population has more than doubled over the past 40 years.

Rep. Jay Inslee (D-Wash) has sent a letter to colleagues supporting an ESA listing based on the recent reports. "Given the perilous status of polar bears in Alaska, we also must maximize the protection of their habitat," Inslee said. "We believe that any further commitments to fossil fuel development in polar bear habitat should be put on hold until the Fish and Wildlife Service has issued a final listing determination..."

Earlier this year, Inslee said the bear could serve as a mascot for Congress to press for dramatic limitations on carbon emissions.

"It would certainly be another arrow in our quiver," he said of the proposed listing.

RDC and industries across the U.S. are concerned an ESA listing will be used as a mechanism to address the broader issue of global climate change and target development of fossil fuels.

It is highly probable that among the effects of a polar bear listing would be lawsuits targeting projects that directly and indirectly emit carbon into the atmosphere and therefore contribute to global climate change. Lawsuits would likely target the federal government to designate large portions of Alaska's Arctic as critical habitat.

Once critical habitat designations are in place, more litigation challenging development in or near those designations would likely occur and affect projects ranging from village infrastructure expansion to new oil and gas development.

This is a major concern to Alaska, when 89 percent of the state's revenue base comes from oil development – the vast majority produced in the Arctic.

Moreover, there is concern that an ESA listing and subsequent third-party litigation could jeopardize the long-term economics of the proposed Alaska natural gas pipeline.

Experts warn that new natural gas discoveries beyond the 35 trillion cubic feet of known reserves are vital to ensuring the long-term profitability of any gas pipeline. But ESA-related litigation could block access to areas that may hold up to 200 trillion cubic feet of gas, and steer investment away from Alaska.

Richard Glenn, an Inupiat resident of Barrow and a co-captain of a subsistence whaling crew, testified at a hearing earlier this year that "a polar bear is at home in the water, on ice and on land." He noted, "polar bears have adapted and adapt each year to changing habitats, prey and food sources." He said an ESA listing will do little for the bear.

"It will not create more ice cover, it will not change their ability to locate dens or prey, but it will negatively and disproportionately affect the lives of the Inupiat Eskimos who coexist with the polar bear in the Alaskan Arctic," Glenn said.

The State of Alaska suggested earlier this year that federal government studies consider additional information on population factors such as terrestrial habitat use, and food sources should be factored into modeling for the month or so of potential ice-free conditions along the Arctic coast in late summer.

The Alaska Oil and Gas Association noted speculation about the loss of sea ice over the next 45 years, compounded with further speculation about the response of polar bears to this loss of sea ice, should not outweigh data that show no negative trend in Alaska polar bear numbers.

The U.S. Geological Survey (USGS) and the U.S. Fish & Wildlife Service (FWS) have released new reports predicting polar bears will be gone from Alaska within 50 years.

The nine administrative reports will be considered within the context of the Service's one-year review of listing the polar bear under the Endangered Species Act (ESA).

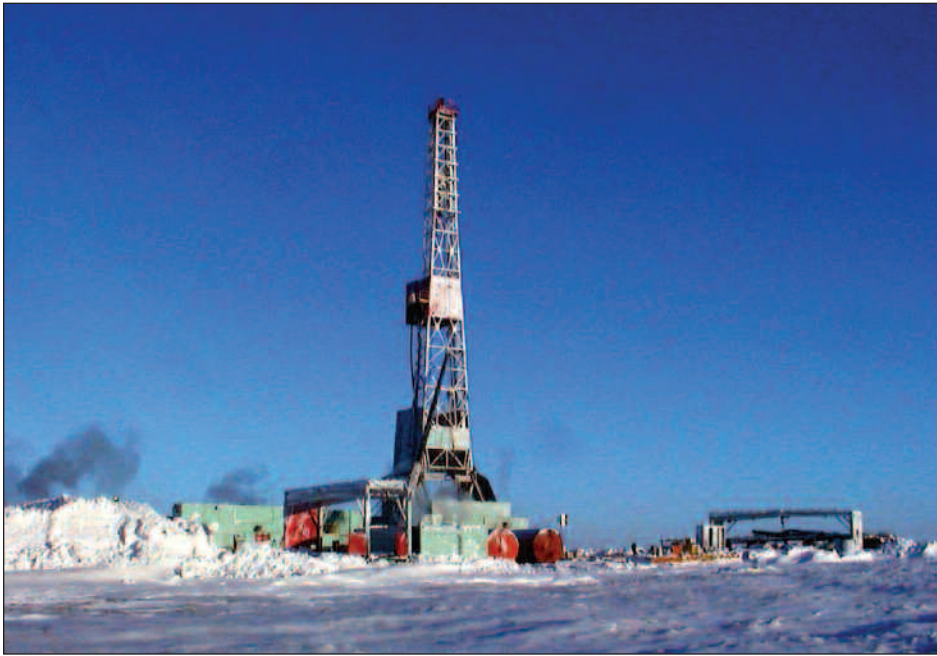
The reports claim the loss of summer sea ice habitat will be so profound for bear populations that regional efforts to protect them, such as restricting Arctic oil and gas development, will not be able to prevent their disappearance. Moreover, the bears' doom is irreversible, the studies conclude, even with a dramatic effort to reduce greenhouse gas emissions.

Earlier this year, the FWS proposed listing the bear under the ESA because climate change is melting its habitat – polar sea ice. The recommendation is based heavily on selective use of carbon emission scenarios and highly speculative computer models that predict sea ice in the Arctic vanishing by 2045.

RDC opposes listing the polar bear at this time because there is too much scientific uncertainty surrounding the carbon-emission scenarios and computer modeling, as well as how the polar bear will adapt to changing conditions.

RDC has also noted that a listing cannot be justified since polar bears are abundant and their population in Alaska is healthy in size and distribution. Polar

# BLM EXTENDS COMMENT PERIOD ON NEW NPR-A PLAN FOR OIL AND GAS ACTIVITIES



*At left is a ConocoPhillips exploration rig in the National Petroleum Reserve-Alaska (NPR-A). A new 2007 draft supplemental plan addresses the cumulative impact of increased activity in the planning area when combined with increased activity in other areas of the petroleum reserve. It also takes into account issues ranging from climate change and potential Endangered Species Act protections for polar bears to the rising price of oil.*

The Bureau of Land Management (BLM) is extending the public comment period to November 6 for its draft supplemental plan outlining the scope of future oil and gas activity in the Northeast National Petroleum Reserve-Alaska (NPR-A) planning area.

The supplement addresses a list of issues and contains a range of alternatives regarding the BLM's administration of public lands within the planning area. These alternatives are essentially unchanged from those analyzed in the Northeast NPR-A Final Amended Environmental Impact Statement (EIS) and correct inadequacies in that plan identified in a 2006 decision of the U.S. District Court of Alaska.

The Court found that the amended 2006 EIS failed to fully consider the cumulative effects of oil and gas leasing in the planning area and in the adjacent Northwest NPR-A planning area. The new supplement adds this analysis.

Under the recently-released supplement, 373,000 acres north and east of Teshekpuk Lake are further evaluated for leasing. This area was off-limits in a 1998 plan crafted by the Clinton administration for the Northeast area of the reserve, but was open to leasing in the

amended 2005 plan. This area is considered to be among the most oil-rich acreage in NPR-A, perhaps containing two billion barrels of oil. The area also contains large populations of waterfowl and caribou. It is coveted by local residents for subsistence hunting.

The four alternatives in the 2007 amendment range from opening 87 percent to 100 percent of the 4.6 million acres of the Northeast planning area to oil and gas exploration and development. While the agency clearly supported increased leasing in the 2005 plan over the 1998 proposal (Alternative A—No Action), the latest version does not indicate which alternative of the four BLM prefers.

Given industry's track record with wildlife on the North Slope and the technological advances of the past decade, which have greatly reduced the development footprint, RDC supports Alternative C – full leasing.

NPR-A was specifically designated by Congress for the production of energy resources, and since the need for new oil production has increased, it is important that BLM provide access to the Northeast planning area's most promising prospects. Alternative C would

provide such access.

All of the producing fields on the North Slope are located within 25 miles of the coast. Eliminating substantial acreage within this belt could preclude the discovery of a major deposit.

Alternative C would utilize prescriptive to performance-based standards and procedures to mitigate impacts of energy development. In addition, seasonal stipulations and other protective measures would be applied to safeguard sensitive areas.

While Alternative C would open 100 percent of the area's 4.6 million acres to oil and gas exploration, permanent facilities would be prohibited on more than 1,113,000 acres.

Oil and gas development in the petroleum reserve would benefit the economy by creating increased revenues and employment, while enhancing energy and economic security.

Revenues and employment generated by oil and gas development would be significantly greater under Alternative C than under the no action alternative.

RDC has posted an Action Alert on this issue at [www.akrdc.org](http://www.akrdc.org). Members are encouraged to submit comments by November 6.

## SECOND LARGEST NATIONAL FOREST

## CHUGACH FOREST CHERISHED BY MANY

The Chugach National Forest holds some of the county's most stunning resources and landscapes, stretching from Prince William Sound's rain forests, the internationally recognized Copper River Delta, throughout the Kenai Mountains, and inland to the Chugach Mountains.

The forest was established in 1907 under Presidential Proclamation by President Roosevelt for conservation of its fisheries and wildlife resources. Today conservation drives multiple use stewardship goals that integrate local and global recreation, travel, and tourism demands with urban and rural community interests for natural resources such as gravel and stone, mining, and forest products, including firewood. The forest continues to contribute significantly to commercial, sport, and subsistence values.

Today's stewardship priorities are focused on partnerships for access, conservation and restoration, collaborative community-based problem solving, international connections, and organizational effectiveness. This vision challenges us to enhance public access, engage in conservation and restoration projects, leverage our international role, be increasingly relevant to our communities through a collaborative learning approach, and continuously strive to establish a culture of business acumen in our work.

The size and shape of the forest has changed over the last century as land was transferred to Alaska in support of statehood and as a result of the Alaska Native Claims Settlement Act. The forest today is 5.5 million acres, covering three broad landscapes: the actively managed Kenai Peninsula; Prince William Sound (managed in the west to maintain wilderness character and in the east for backcountry uses) and the Copper River Delta, primarily managed for fish and wildlife conservation.

Despite changes in its borders, the Chugach remains true to the intent of its Presidential Proclamation, conserving the land for the public good and con-

serving fish and wildlife habitat. Taken in all its astonishing beauty and wealth of natural resources, the Chugach is a jewel in the crown of the National Forest System.

This forest is truly a land of multiple uses, and it benefits its citizen owners in many ways. Considering the variety of recreational opportunities, the resources in the forest, and how each benefits a diversity of users large and small, is the heart of the meaning of multiple use.

An average forest user can park at a trailhead and spend a week alone, camping and hiking the wilderness, far from civilization. On a different day, the visitor could take advantage of one of the many permitted guides that do business in the forest. They could take a ride on the railroad that enters into the heart of the Kenai Peninsula on the way to the inaugural Spencer Glacier Whistle Stop, or charter a flightseeing trip into Prince William Sound. They could even mine for gold on the Kenai Peninsula.

These few examples illustrate an ideal synthesis of resource and recreation: the hiker treks and camps in the wilds of Alaska; the permittees and the Alaska Railroad provide the hiker access to otherwise unreachable locations or goals. Each user serves the other.

While logging on the Chugach is not commercially viable for various reasons (the size and location of trees, lack of roads), a house log program allows for the harvest of logs for individual home building. The Hope Fire Station was built using logs from this program. The forest's firewood program allows for 25 cords of wood and benefits users throughout the area. All these things, in their relative and important scale, represent the multiple use mission where the Chugach connects with its communities across the landscape.

The Chugach actively works with commercial enterprises, such as recent efforts involving Chugach Electric with



Senators Ted Stevens and Daniel Inouye, Forest Supervisor Joe Meade, and project coordinator Adam McClory enjoy a moment at the Spencer Glacier Alaska Railroad Whistle Stop ribbon cutting.

both its Cooper Creek hydro facility and its power corridor for Hope, ensuring our communities have sustainable transmission of electricity. We are currently working with mineral materials suppliers and the existing mining claims in Southcentral to bring the Spencer area's resource of rock, sand, and gravel to market. Projects like the recently completed restoration of Resurrection Creek create local jobs, and at the same time a direct line can be traced back to the original mandate of resource conservation.

Our Centennial celebrations this year have placed an important spotlight on multiple use, community involvement, and partnership. As Forest Supervisor, looking ahead to the next century of service, the single most important value we can all contribute towards is relevancy: connecting people to their forest through community based problem solving, youth based conservation education activities, and through shared stewardship of our public land.

The benefits reaped from involving communities and Alaska's youth make the Chugach relevant to current and future generations. They are the future stewards to whom the forest will be entrusted!

Forest Service Chief Gifford Pinchot's foresight more than a century ago has proved accurate and invaluable to the people of Alaska. The original intent to conserve the Chugach National Forest, its resources, fish and wildlife, and land, provided a sound base for its evolving mission: to watch over a forest that can benefit all Americans. This is the essence of multiple use!





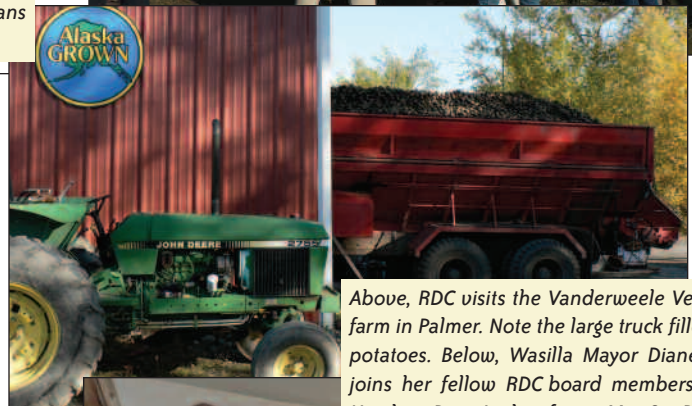
RDC Board members and guests gather together at Port MacKenzie in front of logs harvested by NPI. Shown is a view of Anchorage from near the site of the proposed Knik Arm Bridge northeast of Port MacKenzie. While at the port, RDC visited the Alutiiq manufacturing plant which specializes in construction of buildings for rural areas. In hard hats, RDC board members pose before Wilder Construction gravel operations in Palmer.



## RDC BOARD TOURS PROSPEROUS MAT-SU BOROUGH IN 2007 COMMUNITY OUTREACH TOUR



Above Wayne Brost briefs RDC President John Shively and Mat-Su Assemblyman Rob Wells on his 900-acre Pt. Mackenzie dairy farm. His 180 cows supply 4,000 pounds of milk daily, enough to provide 4,000 Alaskans with a wide assortment of dairy products each day.



Above, RDC visits the Vanderweele Vegetable farm in Palmer. Note the large truck filled with potatoes. Below, Wasilla Mayor Diane Keller joins her fellow RDC board members at the Hatcher Pass Lodge for a Mat-Su Borough briefing by borough manager John Duffy.



Above, the group tours the Independence Mine State Historical Park in Hatcher Pass. At left, Deantha Crockett exams computer screens at the Tsunami Warning Center in Palmer. RDC also toured the Musk-Ox Farm.







## OIL TAXES: RUSH TO JUDGMENT?

As a friend of mine who is on the other side of the PPT debate from me said the other day, “Here we go again.” For the third time in three years we are back debating how much we can tax the oil industry without doing long-term (and perhaps even short-term) damage to our economic future.

Because the issue is so important and so contentious, RDC is devoting much of this issue of the *Resource Review* to the subject. Although I have many concerns with increasing production taxes again, I am going to address only two of them in this column.

The first concern is the idea that we need to set taxes as high as possible to gain our fair share because we are the owner of the resource. We hear this argument often from the “Tax to the Max” folks. Of course, tax policy is not based on ownership. If it were, the government would be able to tax our homes only if the government owned those homes.

In most places tax policy is set according to the needs of government, not according to how much the government can take. Many places, including a number of communities in Alaska, have limited the government’s ability to collect taxes by establishing a tax cap. Such caps have become an acceptable means of helping political leaders control governments’ seemingly unquenchable thirst for more money.

Taxes are usually increased when a government needs additional funds to run its operations. However, with Alaska’s upside down approach to tax policy, we have been steadily increasing taxes on the oil industry while the treasury has been collecting large surpluses. I guarantee you that if we were achieving such surpluses as a result of a personal income tax, the citizens would be demanding (and perhaps getting in a special session) a decrease in the tax rate.

I should also mention that I believe we achieve our share of the ownership of the oil through royalties, not through taxes. Those royalties are based on a percentage of the value of the oil so that they increase as the price of oil increases.

The second issue I want to address is one you have heard many times before from RDC and others in the business community – the absence of a state fiscal plan. If this matter were not so serious, it would be amusing to see how the “Tax to the Max” politicians get around this subject, particularly since in the past many of them have feigned support for a fiscal plan for Alaska.

Some of them say we need to get the money from the oil companies now so that we can save it for the future. I would ask, “Save for what? Save for when?” If we had a fiscal plan, the citizens would be able to answer these questions.

Lacking a fiscal plan, our only option is to look at the recent past to see whether the government is capable of saving surplus tax dollars, and the answer seems to be a resounding “No.” The large surpluses of the past few years have been blown through the way a full-speed tractor trailer might speed through a small patch of fog.

“...With Alaska’s upside down approach to tax policy, we have been steadily increasing taxes on the oil industry while the treasury has been collecting large surpluses. I guarantee you that if we were achieving such surpluses as a result of a personal income tax, the citizens would be demanding (and perhaps getting in a special session) a decrease in the tax rate.”

Some of the more intellectually honest “Tax ‘em because we can” folks have a long list of items for which they would spend the new tax revenue. I would ask these enthusiastic big spenders, “Spend for how long? What happens when the money runs out?”

Absent a fiscal plan, there are no answers to these questions, and that is probably the most serious issue facing the state. I read recently that as Alaskans we enjoy the “lowest state and local tax burden as a percentage of personal income” in the nation (Alaska Economic Trends – September 2007). We achieve this lofty status without taking into account the Permanent Fund Dividend.

If our political leaders decide to base an ever-expanding state budget almost solely on significant increases in taxes on oil production, the combination of the continuing decline in North Slope production and a dramatic decline in the price of oil would be disastrous.

Such a high budget/low production/low price scenario would quickly remove us from the top of the least-taxed list I mentioned above and could easily send us into the kind of economic downward spiral Alaska experienced in the mid-1980s.

The special session of the legislature begins October 18th and could take one of two courses. The legislature can choose to take a short-term economic view and concentrate solely on how much money they can take from the oil industry.

However, it is my hope that the legislature will take the longer view and address the very difficult subject of how today’s oil revenues fit into our fiscal future. It is unlikely that such a vital and complex subject can be dealt with in 30 days, and I see no reason to rush the judgment on this issue, given its importance to our future.

# 50-50 PARTNERSHIP ESTABLISHED TO ADVANCE PEBBLE

With an investment of \$1.4 billion, Anglo American has become a 50 percent partner with Northern Dynasty to pursue development of the world-class Pebble copper-gold-molybdenum project in Southwest Alaska.

The purpose of the partnership is to engineer, permit, construct and operate a modern long-life mine at the Pebble prospect. The transaction agreements between Northern Dynasty and Anglo American lay out a schedule to accomplish this goal, targeting completion of a pre-feasibility study in December 2008, a feasibility study by 2011 and commencement of commercial production by 2015.

"As one of the world's largest copper-gold-molybdenum deposits, Pebble has the potential to be a world-class operation," said Cynthia Carroll, CEO of Anglo American. "Like Northern Dynasty, Anglo American is committed to the highest international standards for community relations, environmental protection, and health and safety. We look forward to working closely with



*Exploratory work has been occurring at the Pebble deposit for more than five years.*

the people of Alaska and, in particular, the communities of the Bristol Bay area and the Kenai Peninsula to maximize the value of these resources for all stakeholders, taking into account the positive long-term demand prospects for copper."

Over the next six months, the new partnership will put a management and

operating team in place for the Alaskan-based operating company, guided by a board of directors with equal representation from Anglo and Northern Dynasty.

"Northern Dynasty's experienced, largely Alaskan based, mine development team has been undertaking thorough and balanced technical, environmental and social assessments to ensure that the Pebble project is developed in a manner that protects the environment and traditional ways of life," said Ron Thiessen, President and CEO of Northern Dynasty. "We have sought a partner that shares our approach to development, has the ability to finance, and is an experienced mine operator. Anglo brings commitment and depth in all these key areas."

The Pebble deposit inferred resources of 42.9 billion pounds of copper, 39.6 million ounces of gold and 2.7 million pounds of molybdenum add up to one of the largest accumulations of these metals in the world and a projected mine life of at least 50 years or more.

## RDC NEWS DIGEST

### AGRIUM CLOSING KENAI NITROGEN FACILITY

At the end of September, Agrium, Inc. closed its Kenai nitrogen fertilizer operations due to a shortage of natural gas supply in the Cook Inlet basin. Closing the facility will result in the lay-off of more than 100 employees and will strike a blow to the Kenai Peninsula Borough's tax base. The local economy will also feel the impact with the immediate loss of an annual payroll of \$16.5 million, down from \$30 million in 2001 when some 300 people worked at the plant.

Agrium spokeswoman Lisa Parker, who also serves on the RDC board, said the company will continue studying the feasibility of converting its feedstock from gas to coal, using an environmentally-friendly and proven technology called coal gasification. A low emission coal gasification plant could lead to reopening the facility in the next decade.

Borough Mayor and RDC board member John Williams said the closure points to the need for more gas in Southcentral Alaska, either through new discoveries or a bullet line from the North Slope.

### RDC ANNUAL CONFERENCE SET FOR NOVEMBER 14-15

RDC's Annual Conference will be held November 14-15 at the Sheraton Anchorage Hotel. The two-day agenda, as well

as registration information, a list of sponsors, exhibitors and raffle donors are available online at [www.akrdc.org](http://www.akrdc.org).

### TECKCOMINCO'S PROPOSAL TO EXTEND MINE UNDER REVIEW

TeckCominco's request to extend mining of zinc and other minerals near the Red Dog Mine has initiated the review of the 1984 Environmental Impact Statement (EIS) and a Supplemental EIS (SEIS). The SEIS will include review and/or modification of EPA and Corps of Engineer permits.

Mining of the Aqqaluk deposit would begin approximately in 2010, using the same facilities and much of the same waste stockpile areas as the current mine. There are no proposed changes to the water treatment systems in place, nor to the discharge locations. The Aqqaluk deposit would extend the mine life of Red Dog to 2031.

### RDC COMMENTS ON VARIETY OF ISSUES

RDC has prepared action alerts and completed comment letters on numerous issues of importance to our members. These issues include the proposed ESA listings of Cook Inlet Beluga whales and Yellow-Billed Loons, EPA Clean Water Act NPDES Permits for Discharges Incidental to the Normal Operation of Vessels, and the Steller Sea Lion Draft Recovery Plan. Visit [www.akrdc.org](http://www.akrdc.org) for details on these and other issues.





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