RESOURCE review

akrdc.org

A periodic publication of the Resource Development Council for Alaska, Inc.

August 2014

Oil tax reform is working – let's give it a chance

RDC board members from across Alaska's resource industries – oil and gas, mining, forestry, fishing, and tourism – urge Alaskans to Vote No on 1 in the primary election on Tuesday, August 19. Oil tax reform is working and we must give it more time to do what it was designed to do – put more oil in the pipeline and generate more state revenue. To view the entire RDC board, visit akrdc.org/membership/. (Photo by Judy Patrick)

FACTS Oil tax reform is already working and should be given the chance to do so

- Billions of dollars in new investments that will increase production by tens of thousands of barrels per day.
- A record number of rigs are at work on the North Slope.
- For the first time in more than a decade, the production decline has been virtually erased.
- Business activity across the private sector is up sharply, resulting in hundreds of new jobs across Alaska.

Ballot Measure 1 would return Alaska to a failed system that did nothing to grow our economy or stop the steep oil production decline under ACES. Further, a yes vote would undermine the progress in stemming the production decline and jeopardize the Alaska LNG project.

This edition sponsored by: Dowland Bach and Lynden

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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.

Past issues of the Resource Review (1978-2014) are available at akrdc.org.

Message from the Executive Director – Rick Rogers

A no vote on Ballot Measure 1 puts Alaska on the right path

On August 19, Alaska voters will make a critical decision on Ballot Measure 1, significantly affecting the future economy of our state. This decision that will put us on one of two very contrasting paths.

Vote Yes advocates cleverly avoid any conversation of their vision for Alaska's future. But with ACES' (the old tax structure) seven-year track record, it's not too hard to see where a yes vote would lead us. In the seven years ACES was the law of the land, North Slope production declined by 200,000 barrels a day, an average of 6.3 percent annually. Repealing SB21 and going back to ACES would result in more of the same – accelerated production decline.

Consider what a continued 6.3 percent decline looks like. By the time a child born this year is in 6th grade, oil production under ACES likely would be about half what it is today. As a supporter of public education, that concerns me. ACES advocates have no answer for continued production decline, and I've yet to hear them acknowledge how dangerous low price scenarios under ACES could bleed state coffers with generous credits and little offsetting revenue.

Voting no leads to more production and continued North Slope investment to help stem the six percent annual production decline since ACES oil tax was passed. Slowing, perhaps even reversing, this production decline was the primary goal of oil tax reform, and is the reason the governor and Alaska Legislature worked for three years to find a balance.

Oil tax reform has only been in place since January and we already are seeing increased North Slope activity - well work-overs, new drilling rigs, and slowing of the rate of production decline. In fact, a record number of rigs are now at work on the North Slope and ConocoPhillips alone is predicting 40,000 barrels per day of *new oil* from recently announced projects by 2017.

Voting no reduces state budget volatility and mitigates risk at lower oil prices. Hope is not a strategy, yet the old ACES tax pinned our state's finances on the hope that oil prices would remain high. With oil tax reform, we are not immune from oil price shocks, however, we have increased our base tax rate from 25 to 35 percent to bring in more revenue at lower prices. This will help reduce radical income swings from one year to the next. Under ACES, high tax credits and low oil prices exposed the state to severe financial risk.

> **"ACES is a short-term looting of our long-term economic well being, it's like eating our seed corn, it's a giveaway of our future."**

Voting no keeps hopes of a North Slope gas line alive, and the thousands of jobs and billions in investment and state revenue it will generate. A no vote solidifies a renewed partnership between the state and the producers, but nothing will throw more cold water on its progress than returning to ACES.

Voting no generates high-paying jobs with huge multipliers. A recent McDowell Group economic analysis estimates for every direct oil and gas job created, 20 additional jobs are created in our economy by industry spending. No matter the trade, profession or business – no matter whether it is in the public or private sector – a healthy oil sector will improve employment opportunities.

More production, low oil price protection, less state budget volatility, better hopes for a gas line and high-paying jobs with big multiplies are all very good reasons to vote no on one.

This is not some abstract theory or philosophical game. The outcome of Ballot Measure 1 is likely to affect your home equity, determine whether your kids can make their way in Alaska and determine whether we can sustain the finances needed for education, public safety, infrastructure, resource management and stewardship, and social services.

ACES is a short-term looting of our long-term economic well being, it's like eating our seed corn, it's a giveaway of our future.

Young Alaskans deserve a promising future of opportunities; we all deserve better than going back to the failed policy of ACES and its dismal long-term outcomes. We need to vote no to give oil tax reform a chance.

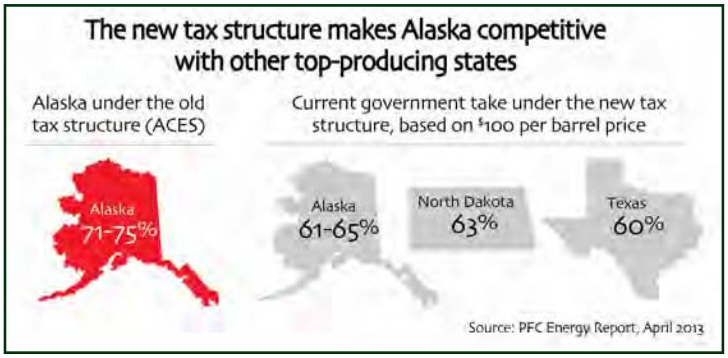
A no vote on Ballot Measure 1 puts us on the right path.

FACTS

• The new oil tax structure includes a base tax rate of 35%, higher than the old base tax rate of 25%.

• Under the new tax structure, total combined government take (federal, state, local taxes/royalties) is 61-65% at $100 a barrel.

• At forecasted oil prices, revenues will be higher under the new tax structure next year than it would be under the old tax. Source: Dept of Revenue, Feb. 2014.



• Oil and gas revenues provide 92% of the state's unrestricted general funds.

• Without oil, Alaska's economy would be half the size it is today.

Source: ISER report, Dr. Scott Goldsmith, Feb. 2011

Producers erase production decline

Oil tax reform and the resulting boom in North Slope production activity is paying off.

For the first time in more than a decade, North Slope producers have nearly erased a long-term decline in oil production. An intense focus on "workovers" of producing wells to stimulate production and the drilling of new producing wells have cut the decline in North Slope production to a mere 0.13 percent in fiscal year 2014.

As recently as December, the state estimated a 4.4 percent decline for this year.

The estimated daily average for fiscal year 2014, which ended June 30, is 530,939 barrels per day compared with the average of 531,639 barrels per day in FY 2013, which saw an 8.2 percent decline in production from the year prior.

The fractional decline in FY 2014 is the second-best annual performance since 1989. FY 2002 saw a 2.6 percent increase when two new fields – Alpine and North Star – began producing. The long-term average decline since production peaked in 1988 at two million barrels per day is six percent.

Proponents of Ballot Measure 1, which would repeal oil production tax reform, note that while the industry has been successful in curbing declining production in the short term, the state is forecasting a sharp decline in production over the next decade.

However, the state's long-term production forecast, published last fall, does not reflect billions of dollars in new producing-adding investments that have been announced since the passage of oil tax reform last year.

"The number one statistic that matters most to Alaskans is production, not forecasts or projections," said Kara Moriarty, President and CEO of the Alaska Oil and Gas Association. "The news that we have stopped the drop in our oil production for the first time in more than 10 years is no surprise to those of us who believe creating a competitive investment climate will bring more rigs, more jobs, and more oil to the state," Moriarty added.

"Proof of this concept is now out for everyone to see: oil tax reform is working," Moriarty explained. "More production also means more royalties going into the Permanent Fund, as a result of the change. It's also another compelling reason to vote no on ballot measure 1 on August 19."

Since SB 21 (oil production tax reform) passed the legislature last year, oil companies have announced nearly $10 billion in new investments that could add more than 100,000 barrels per day in new production over the next eight years. This is in addition to $5 billion in new projects underway at Point Thomson and in the National Petroleum Reserve-Alaska.

ConocoPhillips has three new projects in the works that will result in a net addition of 40,000 barrels per day in new production by 2017. BP also has new projects that will add 40,000 barrels per day in new production.

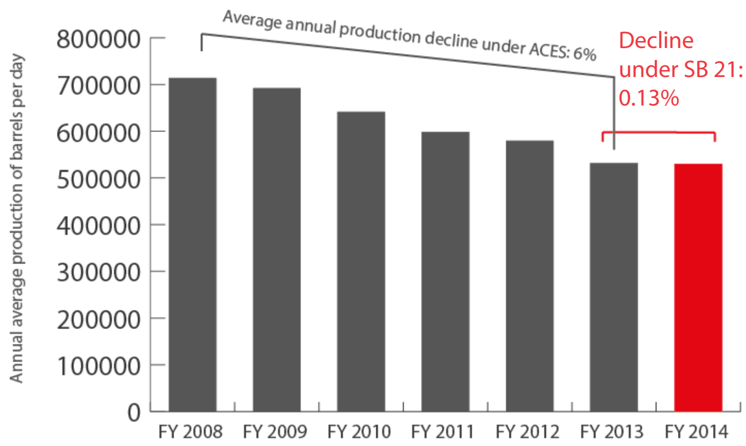
ConocoPhillips is budgeting twice what it spent in Alaska in 2012 and BP is reinvesting 90 cents of every dollar made in Alaska.

While it takes years for major projects to come on line, BP and ConocoPhillips have added four drilling rigs to their operations. A record number of rigs are now at work on the North Slope.

Despite the lack of a specific guarantee in the law, there have been major investments and achievements since SB 21 was approved.

Oil Tax Reform is Working: Give it a Chance

Since SB 21 passed the legislature last year, the decline in North Slope production has fallen to 0.13%, or nearly flat.



FACTS

• Voting No on Ballot Measure 1 will help grow the Permanent Fund.

Taxes do not go into the Permanent Fund, but at least 25% of royalties do. Royalty revenue is determined by production. The only way to increase royalties is to increase production, which declined 6% per year on average under ACES. The new oil tax is designed to boost production – every additional barrel produced means more deposits into the Permanent Fund.

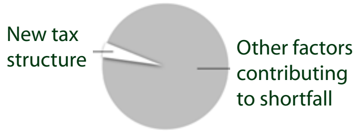
• At current and projected oil prices, the state is forecasting more revenue under the new oil tax than it would have under the old tax structure.

Source: Dept of Revenue presentation, Feb. 2014

More revenue will allow more long-term, sustainable funding for education, state services, and programs. Under the new tax structure, state revenue will increase with more production and become more predictable at a wide range of oil prices.

• "The so-called $2 billion 'giveaway' this year under SB 21 doesn't exist."

Source: Prof. Scott Goldsmith, ISER, University of Alaska, May 1, 2014.



Falling oil prices, declining production and rising costs under the old tax system are the primary causes of the current dip in state revenue. Less than 5% of the revenue shortfall can be attributed to the new tax.

ConocoPhillips increasingly optimistic about Alaska's future oil and gas prospects

With a much improved business climate thanks to oil production tax reform, ConocoPhillips CEO Ryan Lance said his company is increasingly optimistic about Alaska's prospects for both increased oil production and a large LNG export project.

Lance, speaking before over 1,000 people at RDC's annual meeting luncheon in Anchorage June 24, cited passage of SB 21, oil production tax reform, as encouraging new investment in oil production and setting the stage for a North Slope LNG project.

Lance noted the petroleum industry is booming in the Lower 48, mainly because of the revolution in extracting oil and gas from shale. Alaska passed a tough new tax policy in 2007, just as shale development exploded in the Lower 48.

"The ACES tax created an adverse investment climate while conditions were favorable in the Lower 48," Lance said. As a result, investments aimed at new production went there, not Alaska, which slipped from second to fourth – behind California in annual production.

SB 21 made investment in oil producing projects more attractive than it had been under ACES, allowing the industry to turn its focus back to Alaska, Lance said. With the improvement in the fiscal climate, activity is picking up across the North Slope, Lance noted.

ConocoPhillips' Alaska budget has increased 50 percent from 2013 and is now twice the average of 2008-2012. The company expects to add 40,000 barrels per day of new North Slope production by 2017.

As for LNG, Lance said "Alaska has advantages (for LNG export) because of its location relative to Asia markets and the desire by buyers to diversify supply." He said the state's participation in the Alaska LNG project has enhanced the alignment among the parties, which include the North Slope producing companies and TransCanada.

While the LNG project clearly represents a big opportunity for the state, Lance said that for an Alaska project to compete, "it's going to take reasonable supply cost and reasonable fiscal terms" because of competition from 40 LNG terminals proposed to date in North America and more around the world.

With oil production tax reform, Lance said the stage is now set for a new wave of investment and development, explaining that a robust oil industry also makes Alaska's North Slope LNG project more competitive with projects elsewhere.

Lance said Alaska is moving in the right direction. He noted SB 21 is doing what it was intended to do – to be more competitive with other investment opportunities elsewhere, encourage new investment in Alaska, and start producing off the North Slope.

Lance is no stranger to Alaska. He was based here for half of his 30-year career. While with ARCO, he led the development of the Alpine field on the North Slope. He also served on the RDC Executive Committee during part of his time in Alaska.

Senator Murkowski, Alaska labor unions urge NO vote on 1

Senator Lisa Murkowski recently joined seven pipeline trade unions and the North Slope Contractors Association to urge Alaskans to vote no on Ballot Measure 1.

"At the end of the day, what oil tax reform was all about was ensuring that we have good strong jobs and a good strong economy in the future," Alaska's senior senator said. "Oil and gas production has been booming in the Lower 48 and Alaska has been exporting its workforce. Compared to the relative ease of drilling wells off a road system, operating in Alaska is challenging and expensive, so our tax structure must be competitive," she said.

"Oil tax reform is helping put Alaska back on the map as an attractive, competitive place to do business. Let's keep it that way," Murkowski said. "Let's bring those jobs back to Alaska. We can do this by voting no on one."

Joining the senator were the North Slope Contractors Association, Doyon Associated, Fairbanks Laborers Local 942, International Union of Operating Engineers Local 302, Teamsters Local 959, United Association Local Union 375, Price Gregory International, and ASRC Energy Services-Houston Contracting Company.

Labor representatives talked about how tax reform has breathed new life into the North Slope. "We doubled our man power on the North Slope from the previous year due to SB 21," said Gary Dixon, Vice President, Teamsters Local 959.

"Why would we want to stop the progress that's been made in putting Alaskans to work," asked Rodney Brown, Business Manager for UA Local 375. "We utilized over 70 local vendors and were able to infuse $100 million into the Fairbanks economy," said Warren Christian, President of the North Slope Contractors Association.

"We currently employ 785 personnel and anticipate another 250-plus jobs due to the work this bill has already incentivized," said Wade Blasingame, President and General Manager, ASRC Energy Services-Houston Contracting Company Inc.

"The amount of work and number of projects either currently ongoing or in our estimating department is at levels we haven't seen in years," said Ken Yockey, Vice President, Price Gregory International.

Rep. Don Young, Gov. Sean Parnell, Lt. Gov. and U.S. Senate candidate Mead Treadwell, U.S. Senate candidates Dan Sullivan and Joe Miller, and former Gov. Tony Knowles also oppose Ballot Measure 1.

Guest Opinion – Jim Calvin

Oil industry essential to Alaska's well-being

McDowell Group recently completed a comprehensive analysis of the oil and gas industry's role in Alaska's economy.

For many years we have tracked jobs and wages associated with the industry's spending with Alaska businesses. However, our 2014 study is different because it also measured jobs and wages connected with government spending of oil-related taxes and royalties. This effort to measure all jobs in Alaska connected to the oil and gas industry produced some remarkable results.

The foundation of Alaska's oil and gas industry, a collection of 16 firms that produce, transport and refine oil and gas, directly employed 4,700 Alaska residents in 2013. (These firms have a combined Alaska hire rate of about 88 percent; nonresidents working in the industry were not included in our economic analysis). These 16 companies also spent $5 billion with businesses in Alaska resulting in a total of 51,000 jobs throughout our economy and $3.5 billion in total annual wages, including all multiplier effects.

But the economic impact of the industry's spending in Alaska's private sector is only half the story. The industry also paid $7.4 billion in taxes and royalties to state and local governments. As government uses oil-related taxes and royalties to fund operations, programs, and capital projects, thousands of public and private sector jobs are created. In fact, government spending of oil-related taxes and royalties accounted for an additional 60,000 jobs and an additional $3 billion in wages in Alaska.

One of the most visible impacts of oil-related revenues is the Permanent Fund Dividend (PFD) program – paying $536 million to 631,470 Alaskans in 2013. The Alaska constitution requires that at least 25 percent of all mineral royalties be placed in the Permanent Fund. Virtually all of the Permanent Fund's principal has come from royalty payments by Alaska's oil industry. Alaskans spending their PFDs supports several thousand jobs in the state.

All told, including private sector spending and payments to government, the oil and gas industry accounted for a third of all wage and salary jobs in Alaska – 111,000 jobs and $6.5 billion in wages in 2013.

> **"It is abundantly clear that a healthy and competitive oil and gas industry is essential to Alaska's economic well-being."**

Another way to think of it, for each job with Alaska's oil and gas producers, pipeline companies and refineries, there are 20 additional jobs in the Alaska economy connected to the oil and gas industry. No other industry in Alaska comes close to the multiplier effect of the oil and gas industry.

While our analysis produced dramatic results, it is actually conservative in its estimates of oil and gas industry economic impacts in Alaska today. For example, it did not consider the jobs and wages associated with the many millions of federal dollars leveraged into the Alaska economy by oil revenue for highway construction and other federal matching programs. Further, oil industry spending in 2014 looks to be substantially above 2013 spending (which was the year we analyzed for our economic impact study).

While the economic impact of oil and gas industry activity in Alaska is profound, it is important to note that Alaska production has been declining steadily since our peak production in 1988 when we produced 25 percent of all U.S. oil. Now we produce seven percent. And while U.S. oil production grew 15 percent between 2012 and 2013, our production declined eight percent.

McDowell Group's assessment of the economic impact of the oil and gas industry in Alaska serves to underscore the importance of the decision voters will be making in August. It is abundantly clear that a healthy and competitive oil and gas industry is essential to Alaska's economic well-being.

Jim Calvin is a principal and senior economist with the McDowell Group, which did its assessment for the Alaska Oil and Gas Association.

Please do not leave this decision to others: Vote No on 1

With August 19 quickly approaching, we need to mobilize voters who understand the importance of maintaining oil production tax reform.

A no vote on Ballot Measure 1 is essential to give our state an economic future that is sustainable for decades to come. A no vote will preserve opportunities for the next generation.

Please do not leave this decision to others as every vote counts. Encourage your friends, fellow employees, and neighbors to vote. Have a conversation with them about the merits of the More Alaska Production Act (oil tax reform). If you or they are uncertain about the facts of oil tax reform and its impact on our economy, seek information from state and local resources, including:

votenoonone.com keepalaskacompetitive.com akrdc.org

Additionally, social media will play a huge role in the August Primary. Vocalize your opinion to Vote No on 1 via Facebook, Twitter and other social media outlets. Post your Vote No on 1 photos and stories – spread the word! Sign up to follow and like efforts to defeat Ballot Measure 1:

Twitter: @VoteNoOn1AK @KeepAKCompete
Facebook: facebook.com/VoteNoOnOneAlaska
facebook.com/KeepAlaskaCompetitive

Key Dates to Remember

Aug. 4 Early and in-person absentee voting opens
Aug. 9 Absentee by-mail application deadline
Aug. 18 Absentee by-electronic-transmission application deadline
Aug. 19 Election Day. Polls are open from 7 a.m. – 8 p.m.

Rex Rock, Sr.

Aaron Schutt

Sophie Minich

Helvi Sandvik

Jason Metrokin

Gail Schubert

Join Alaska Native corporations in voting no on 1

By Rex Rock Sr., Aaron Schutt, Sophie Minich, Helvi Sandvik, Jason Metrokin, and Gail Schubert

Many Alaskans may wonder why six of the largest Native corporations have united behind the effort to defeat Ballot Measure 1. Those who know little about us might assume it's because some of the coalition members have business interests aligned with the oil industry. But that is too simple an answer. We did not enter into this conversation lightly.

As First Alaskans, our people have learned for generations to use and protect the resources that surround us. We have learned that to provide for future generations for tomorrow's children to have the same opportunities we enjoy, hard decisions must be made today.

We have listened carefully to the debate surrounding tax reform and weighed its benefits and drawbacks. We have also allowed ourselves the time to determine if the oil industry's promises of increased investment were genuine.

Some of our businesses are in the oil industry and some are not. What we have seen is an increase in investment into our oil industry, aimed at getting new oil in the pipeline. While that may be good for some of our businesses, it is good for all Alaskans.

Our corporations collectively employ thousands of Alaskans and our employees support small Alaska businesses and the overall economy. New investments increase our opportunity to put new oil in the pipeline. Extending the life of our oil fields translates into continued contributions to our state treasury and the services the state provides to Alaskans for the long term.

Even the harshest critics of SB 21 publicly acknowledged that ACES was broken. We watched as lawmakers worked for seven years to "fix" ACES while investment dried up and jobs by the hundreds disappeared. Experienced workers left Alaska to find opportunities in other oil-producing states, all of which saw an increase in oil production and investment due to high prices. Opponents of SB 21 would like us to believe that giving lawmakers more time to "fix" ACES is the answer. It makes no sense to vote to repeal a productive law like SB 21 to go back to ACES.

ACES clearly had Alaska on a path of no return. We can understand the attraction of high taxes and recognize the benefits that oil tax dollars provide. But we learned generations ago that you cannot take all the fish, harvest every bowhead or hunt all the caribou in a single season without suffering the consequences the following year. There is a time to reap and a time to sow. Alaska was doing nothing but reaping in the years of ACES, but nobody was sowing the seeds of reinvestment that would sustain us and sustain our children in the future.

With all that we have learned and witnessed for ourselves, we could no longer remain silent. There have been times in Alaska's history when the First Alaskans have felt the need to speak with one voice for our future. For the leadership of Arctic Slope Regional Corporation, Doyon, Limited, Cook Inlet Region Incorporated, NANA Development Corporation, Bristol Bay Native Corporation and Bering Straits Native Corporation, now is such a time.

Like all Alaskans, our shareholders have been bombarded with misinformation on the impacts of SB 21 from those who believe the oil industry must invest in Alaska regardless of our tax policies. Simply put, as well-intentioned as they might have been, those people got it wrong seven years ago, and they still have it wrong today.

As the state's largest private land owners, the long-term economic impact of these decisions will impact the development of our resources. Production of Native oil and gas resources needs to be competitive in order to share their potential with all Alaskans.

So we come to all Alaskans with a simple question: Who would vote to take away the opportunity to build a better future for their children? The answer is the same from the North Slope to Southeast. From Southcentral to Northwest Alaska. From the Interior to Western Alaska. The answer, simply, is no one. Join us in voting no on Ballot Measure 1.

Rex A. Rock Sr., ASRC President & CEO; Aaron Schutt, Doyon President & CEO; Sophie Minich, CIRI President and CEO; Helvi Sandvik, NANA Development Corporation President; Jason Metrokin, BBNC President and CEO, and Gail Schubert, BSNC President and CEO, are among the founders of "No One On One," a coalition of six Alaska Native corporations which have joined together against Ballot Measure 1. All six Native corporations are members of RDC.

Repeal of oil tax reform will produce consequences

Will a repeal of SB 21 and the reinstatement of ACES endanger the renaissance in new oil now underway on the North Slope? It probably will, according to Alaska business reporter Tim Bradner.

Repealing oil tax reform will likely produce consequences that lead to severe budget implications for the state, undermine the economic feasibility of the proposed gas pipeline, and likely end efforts to explore for oil in Interior Alaska, Bradner said.

In the Alaska Journal of Commerce, Bradner said that SB 21's repeal would endanger the oil business on the North Slope that economically supports gas. "That will undermine the economic structure of the gas pipeline," Bradner said. "That project faces enough other hurdles like competitors and high costs, and this additional one could be a body blow to the project."

The consequences for the state budget

(Continued to page 11)

RDC elects new board

Pictured above from left to right are RDC officers Ethan Schutt, Secretary, Executive Director Rick Rogers, Senior Vice President Eric Fjelstad, Vice President Lorna Shaw, Treasurer Len Horst, President Ralph Samuels, and Past President Phil Cochrane, who served two consecutive terms.

RDC's Annual Meeting luncheon featuring Ryan Lance was sold out.

The Resource Development Council (RDC) announced the election of its new Board of Directors at its 39th Annual Meeting Luncheon at the Dena'ina Convention Center in Anchorage June 24.

Life-long Alaskan and former legislator Ralph Samuels was elected President. Eric Fjelstad, Perkins Coie, was elected Senior Vice President. Also elected were Vice President Lorna Shaw, Sumitomo Metal Mining Pogo LLC; Treasurer Len Horst, Northrim Bank, and Secretary Ethan Schutt, Cook Inlet Region, Inc.

Newly elected to the RDC Executive Committee were Tim Gallagher, HDR Alaska, Inc. and Glenn Reed, Pacific Seafood Processors Association.

New incoming board members were Jaeleen Araujo, Sealaska Corporation; Greg Beischer, Millrock Resources; Bruce Bustamante, Princess Tours; Gideon Garcia, CIRI Alaska Tourism Corporation; Stephen Grabacki, Fisheye Consulting; Christine Klein, Calista Corporation; Lori Nelson, Hilcorp Alaska LLC; Tom Panamaroff, Koniag, Inc.; Doug Smith, Little Red Services; Phil Steyer, Chugach Electric Association; Casey Sullivan, Caelus Energy Alaska, LLC, and Sinclair Wilt, Westward Seafoods Inc.

Samuels is currently Vice President, Government and Community Relations, for Holland America Line. Prior to working for Holland America, Samuels was employed by PenAir for more than 25 years. He worked his way from loading and fueling planes to Vice President of Public Affairs. During his time there, PenAir grew into the largest in-state airline in Alaska.

In 1998, Samuels was named one of the initial group of "Alaska's Top 40 Under 40" young business leaders. He was elected in 2002, 2004, and 2006 to serve District 29 in the State House. During his tenure in the Alaska Legislature, he served as Majority Leader, as well as a number of committee leadership positions.

At the luncheon, outgoing RDC board member Paula Easley was recognized for serving as RDC's Executive Director for 12 years, beginning in 1975, and serving on the board since 1989. Combined, Easley has more than 37 years of service to RDC.

Prudhoe Bay marks 37th birthday this summer

By Frank Baker

June 20, 1977 was a gray, overcast morning at Prudhoe Bay as scores of reporters, dignitaries and others huddled around Milepost 0 of the trans-Alaska pipeline to witness history. At 10:26 a.m., pumps were started, valves were opened and the first crude oil from North America's largest oil field flowed into the pipeline for its 800-mile journey to Valdez, where it would be loaded aboard a tanker destined for the U.S. West Coast.

Start up, 1977.

It was a historic moment for the nation, which was heavily reliant on OPEC oil, and the State of Alaska, which was struggling to gain its economic footing as a new state. For BP and ARCO, the two operators of the giant Prudhoe Bay field, it was a long-awaited moment — the culmination of a major push into the Arctic that had begun nearly 20 years earlier when geologists first ventured north to probe this remote frontier. Their search paid off in 1968 with the discovery of Prudhoe Bay — ranked among the top 20 oil fields ever discovered worldwide and still the largest field discovered in North America. Early estimates were 9.6 billion barrels of recoverable oil, making it a field of Middle Eastern size.

Thirty-seven years later, after yielding more than 12 billion barrels of oil, the field is still producing about 260,000 barrels per day. It has provided the State of Alaska billions of dollars in taxes and royalties, created tens of thousands of jobs and helped boost the Permanent Fund to more than $50 billion.

Today, Alaska's oil industry accounts for about 90 percent of the state's revenues, with a large share coming from Prudhoe Bay. In addition to its economic benefits, Prudhoe Bay and the field developments it spawned have served as a proving ground for the advancement of oil field technology, Arctic engineering, and significantly increased knowledge of the Arctic environment.

Counting production from Prudhoe Bay and other North Slope oil fields, Alyeska Pipeline Service Company has reliably delivered nearly 17 billion barrels to the Valdez Marine Terminal. A monument at the terminal bears an inscription dedicated to the tens of thousands of men and women who worked on the TAPS project from 1974-77: "We didn't know it couldn't be done."

Thank You!

The Resource Development Council would like to acknowledge the many fine sponsors of our 39th Annual Meeting Luncheon on June 24 featuring Ryan Lance, Chairman and CEO of ConocoPhillips. Thank you for helping grow Alaska through responsible resource development.

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From the President – Ralph Samuels

Ballot measure 1 is short sighted and would leave Alaska with a dismal future

"The reality is that nothing will be able to fill the economic hole that will be created if the amount of oil shipped down the pipeline plummets..."

As a people, we have a choice before us on August 19th that will forge the path we wish to walk down for the next generation of Alaskans. It is not about the oil companies, and it is not about the politicians. It is about what type of economic future we wish to see for Alaska.

Many factors go in to decisions to invest money into a business venture. The cost of doing business, including labor, supplies and transportation. Access to capital. Potential revenue streams. How much do you assume you can sell your product for, and how many can you sell.

And then there is the one factor that business has no control over – taxes.

The faction of the community that would have you believe that the old tax structure in Alaska – ACES – was average compared to other jurisdictions around the globe seem to forget about the other factors that go into the business investment decisions. Is oil in North Dakota, California, Texas and Oklahoma as costly to get to as Alaskan oil? Do they have a drilling season that is only a few months long? Do they have to ship their oil down an aging 800 mile long pipeline?

They seem to forget that the Alaskan economy is far more dependent on oil than any of other jurisdictions in North America. Oil accounts for more than 90 percent of the state's general fund revenues, and for a third of the entire economy. The federal government (mostly military) accounts for a third, and EVERYTHING else accounts for the last third. That means that mining, commercial fishing, sport fishing, forestry, and tourism combined do not have the same economic impact in Alaska as oil.

For the first time in 12 years, the North Slope production decline has been essentially erased as new investment and activity on the North Slope has increased sharply since the new tax structure was passed by the legislature last year. If the new tax structure is repealed and oil production resumes the accelerated six percent decline that occurred under ACES, which of our industries will be able to step up and fill the gap?

Tourism has still not completely recovered from the series of taxes imposed by a 2006 initiative. Commodity prices for minerals are not doing well and it would take an exponential increase in mining activity to fill the hole left if oil continues to decline.

Perhaps the fishing industry could pay a royalty for catching our fish. How about if one fish in eight belonged to the government, the same as the royalty on oil where at least one barrel in eight goes to the state? Royalties are only part of the equation, there are taxes, too. Under the old tax structure, the total government take (federal, state, local taxes/royalties combined) was 71 to 75 percent at $100 a barrel. Today it's 61-65 percent under the new structure. What do you think a similar total government take would do to a fisher's permit prices and investment in processing facilities? None of these are good ideas, but if we follow the lead of the initiative sponsors, they are logical outcomes – after all, it's our gold, our copper and our fish, right?

The reality is that nothing will be able to fill the economic hole that will be created if the amount of oil shipped down the pipeline plummets, and the only thing we as Alaskans have control over that impacts production are our tax and regulatory policies.

We can choose to raise taxes and take 100 percent of the last barrel, and then choose what kind of state in which we want to live. It will be far different than the one we live in now.

Or we can choose to think about the long term and try and get more oil into the pipeline. We can try and help develop a natural gas pipeline to heat our homes, generate revenue and stabilize our economy. It is our choice. Ballot measure 1 is a short sighted vision that will leave us with a broken tax policy and a dismal future.

Please join me in rejecting this viewpoint. Alaskans can have a prosperous economic future, but we must make wise decisions. The wise decision on August 19th is to vote NO on ballot measure 1.

Ralph Samuels is a life-long Alaskan and serves as Vice President, Government and Community Relations, for Holland America Line. The opinions expressed here are of his own.

What if production hadn't declined?

It is true that Alaska would have made less under SB 21 than it did under ACES from 2008-2013. However, what if production had not declined at an average rate of six percent during that period of high oil prices?

Under a more favorable tax structure, investments in producing-enhancing projects on the North Slope would likely have increased and the production decline would likely have been much less. The state would have been able to tax tens of millions of additional barrels of oil.

As Andrew Jensen of the Alaska Journal of Commerce pointed out in a recent editorial, "Not only would that considerably change the calculus in comparing SB 21 and ACES, the state would be on a much firmer financial footing looking forward with greater production than it is now after enacting a growth-stunting tax formula that left Alaska behind while the rest of North America boomed."

Industry digest

Tourism leaders join No on 1 chorus

A growing number of visitor industry leaders, including Cruise Line Agencies of Alaska, Alaska ACT, The Hotel Captain Cook, and the Millennium Alaskan Hotel, are encouraging fellow Alaskans to vote no on Ballot Measure 1.

They are worried that a yes vote would stop the new investment pouring into the North Slope that already is producing results.

Ballot Measure 1 would repeal the oil tax reform and return Alaska to its former tax, referred to as "ACES." Under ACES, Alaska lost more than 200,000 barrels of production a day and was the only oil-producing state to lose production during the current oil boom.

Alaska needs a healthy, vibrant oil industry for long-term, sustainable state budgets, economic growth and to maintain the quality of life Alaskans enjoy, the leaders warn.

Oil provides 90 percent of the state's general fund revenues and it would be virtually impossible to replace Alaska's oil dollars. One University of Alaska Anchorage economist calculates that it would require a $4,000/person tax on visitors, $8,000/ounce tax on gold or a $40/salmon tax on seafood to equal what we raise in oil revenues.

If production continues to decline, there will be higher taxes on cruise ships, docking fees, hotel bed tax and property tax, the industry leaders say.

"We have seen what happens when the economic environment becomes too expensive to compete with global marketplaces," Alaska ACT says. "Cruise ships move to different destinations, which then affects all large and small tourism businesses."

(Source: CLIA Alaska and Alaska ACT).

Joint venture agreement signed on LNG project

The state, North Slope producers, and TransCanada have signed a joint-venture agreement to begin preliminary work on the 800-mile natural gas pipeline from the North Slope to a liquefied natural gas (LNG) export plant on Cook Inlet.

The Alaska LNG Project has fully entered the Pre-Front End Engineering and Design (Pre-FEED) phase – a milestone no previous Alaska gasline project has achieved. During the Pre-FEED phase, the producer parties will spend hundreds of millions of dollars on design and engineering of the project. The project is now working to secure an export license with the Department of Energy and continue permitting work with the Federal Energy Regulatory Commission.

"While many projects have faltered in the past, I am cautiously optimistic about this one because it's the first time in our history when all the necessary parties for a project are aligned, all the necessary parties are putting down their money and all have agreed to work together," said Governor Sean Parnell.

The $45-$65 billion project is still a long way from reality. The recent agreement will precede another phase of work in 2016, which will require another agreement and approval from the legislature. If the project is ultimately given a green light, Alaska gas could hit local and foreign markets by the mid-2020s.

Alaska's oil tax change has improved the odds for an LNG project since a healthy oil business is a prerequisite for gas commercialization.

RDC comments on proposed forest directives

In comments to the U.S. Forest Service on proposed directives for National Best Management Practices (BMPs) for water quality protection on national forest lands, RDC urged the agency to avoid creating yet another costly layer of bureaucracy.

The agency is already successfully implementing BMPs using state-by-state procedures, RDC noted. "Virtually every BMP in the national core set already exists in current regulations, guidance, and procedures," RDC said. "Given uncertain costs of the program and unintended consequences, we urge the Forest Service to only consider essential new BMP objectives in a series of small, discrete steps rather than creating another large federal program."

The National Environmental Policy Act process and other procedures have already sharply increased the expense and time required for the agency to accomplish its land management objectives and for industry to comply with the law.

"Perhaps what would be best for the agency and national forest stakeholders would be to find a path forward in streamlining existing policies and procedures, as opposed to expanding them," RDC said.

Coal Classic Golf Tournament raises funds for ARE

On June, 11th, the 22nd Annual Coal Classic Golf Tournament in support of Alaska Resource Education (ARE) occurred with a sell-out of teams. Supporters of ARE's mission to educate students about Alaska's natural resources, golfed to raise funds and awareness for ARE. For more information on ARE, visit akresource.org.

Repealing oil tax reform will have consequences

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are also severe, Bradner warned. He explained North Slope producers have essentially stopped the production decline for the first time in 12 years after an annual decline rate of six percent under ACES. "If the historical six percent decline rate were to resume, the state's billion-dollar-plus annual deficits would continue unless there were immediate and severe budget cuts." Under that scenario, the state will drain its existing cash reserves except for the Permanent Fund by 2020, Bradner pointed out. Citing economist Scott Goldsmith, Bradner noted that if production is increased by just two percent under the current tax structure, a healthy cash reserve of $7 billion would remain in 2023.

An immediate consequence of a repeal is that special exploration tax credits for exploring for oil in Interior and rural Alaska would go away. The repeal would likely end those efforts.

FACTS

- **1/3 of all Alaska's jobs, more than 110,000, are tied to the oil industry, generating $6 billion in both private and public payroll in 2013.**
- **One direct oil industry job generates 20 others through industry spending, including11 public sector jobs and 9 private sector jobs.**
- **About $8 of every $9 in unrestricted general fund spending to support K-12 public education comes from oil revenue.**

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