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SB21 not in Alaska's best interest, voters must act

By LISA WEISSLERJune 20, 2014

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On August 19, Alaskans have the opportunity to make a difference in our lives, and the lives of future generations. By voting yes on Ballot Measure 1, voters have the power to repeal the oil production tax enacted in 2013. Senate Bill 21 changed how the state taxes the production of publicly owned oil, establishing a system that is not in Alaska's best interest.

An oil production tax, along with the royalties we get as resource owners, is how our oil is converted into the economic fuel that powers our state. Oil revenue supports jobs for Alaskans - teachers who educate our children; troopers who protect our safety; other public workers who provide valuable services, like keeping our drinking water clean, job training, and health care; and construction workers who build publicly funded infrastructure like roads and airports, schools and hospitals, docks and harbors, and much more. These are Alaska jobs that in turn support local businesses and produce other economic benefits.

Because of revenue derived from the oil production tax and royalties, we are not burdened with a state income tax. We directly share in our state's oil wealth through the Permanent Fund dividend.

For all those reasons, it is important we pay attention to how our government collects revenue from oil production. The trick is establishing a system that maximizes public revenues while encouraging industry investment in exploration and production.

Since the first flow of oil, Alaska has struggled with finding the right balance for its oil production tax. More often than not, the state has failed to capture its fair share of profits, resulting in the loss of billions of public revenue. Yet whenever the state looks for a way to make the system more equitable, industry officials threaten to reduce or even shut down production. Too often, our government representatives buy into the threats and, absent an extreme event, give industry what they want to the detriment of Alaskans.

Back in 1987, a formula originally designed to encourage development of marginal oil fields was applied to the productive Prudhoe and Kuparuk fields, resulting in millions of dollars lost to the people of Alaska. In 1989, when legislators tried to fix the problem, they were barraged with testimony suggesting that changing the tax would drive business out of the state. One industry official testified they would quit drilling if the tax was raised. It took the grounding of the Exxon Valdez in March of 1989 to make the change. The industry did not quit drilling. Over time, the tax formula again broke down. By 2006, more than half of all Alaska oil fields paid no or almost no production tax, including the giant Kuparuk oil field. According to a 2003 legislative report, the state lost $1.7 billion between 1995 and 2002.

Losses continued until, in 2006, then-Governor Murkowski introduced a new tax system as part of a natural gas pipeline contract with the three major producers, ExxonMobil, BP, and ConocoPhillips. The producers wanted oil taxes favorable to them locked in for decades in exchange for their consideration - not construction - of a pipeline. Murkowski agreed to the lock-in if the existing tax system was changed. The pipeline deal failed, but the new tax, known as the Petroleum Profits Tax (PPT), passed.

In 2007, partly because some legislators were bribed during the PPT debate, the production tax was adjusted through legislation called Alaska's Clear and Equitable Share (ACES). The changes ensured Alaskans, not just the producers, benefited when oil prices and profits were high and provided for lower tax rates when oil prices were low. By reinvesting in Alaska, producers could lower their tax, and generous tax credits supported investment in the state.

A 2010 status report on ACES by the Department of Revenue said, "The ACES production tax has been effective in allowing the state to share in the benefits of high oil profitability. It has also responded well to lower oil prices by reducing [the] state tax burden on Alaska's oil and gas producers." In 2009, when there were lower oil prices, a Petroleum News article reported that a ConocoPhillips official told analysts, "Consistent with the lower price environment, we had a benefit of $153 million on production taxes, primarily in Alaska," and another official said that the "Lower 48 loss of $71 million was more than offset by the $244 million earnings that we had in Alaska."

Despite this, the three major producers consistently objected to several provisions in ACES, particularly that at very high oil prices, the state's share of profits was too high. They complained, just as they have in the past, that the production tax made Alaska unattractive as an investment when compared to other worldwide oil and gas regimes.

In 2013, in response to industry complaints, the Parnell administration introduced, and the Legislature passed, Senate Bill 21. Among other things, SB 21 takes away Alaska's benefit when oil profits are high, and creates a lower effective tax rate for "new oil." Over time, more and more production will be classified as "new." Like the old formula, the system will break down, and Alaskans will again lose billions as oil flows out of the state and production inevitably declines.

Recognizing that SB 21 is not in the state's best interest, Alaskans have taken matters into their own hands with a referendum to repeal SB 21 and return to ACES. The state's three major oil producers are leading the charge against the repeal, once again warning of dire consequences if the tax is changed.

In the past, it took an oil tanker hitting a reef, a proposed tradeoff of an oil tax lock-in for a potential natural gas pipeline, and a corruption scandal for our government to stand up for Alaska. Now is the time for the people of Alaska to act. With passage of Ballot Measure 1, we return to a system that better maximizes public revenue while encouraging industry investment, and that gives us a more equitable platform for moving into the future. Please vote "Yes" on August 19.

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