

Oil Incentives are Key to Prosperity

If we want a future for our children and grandchildren in Alaska, we must stop spending our savings to prop up government. We must fix the structural problem that we have. We must develop our natural resources.

The previous Legislature looked at how we can generate new oil exploration and production. One way to make Alaska more attractive to exploration investment is to give tax incentives for new development. We did this, and for very good reason.

As production continues to decline, the price of oil becomes less and less relevant to our state treasury. We need more production. Currently, oil is about \$29 a barrel, still not high enough to cover our state expenses. Despite all the howling over budget cuts by the current administration, we are still going to have to draw \$400 million from our savings account to help pay the bills.

Just as individuals do, oil companies will invest where they have the best rate of return. Alaska's competition for exploration dollars comes from places like Canada, China and Venezuela. These places offer exploration incentives, while Alaska has not done so. In recent years, this resulted in Alaska's being out of the competition, and we have had virtually zero new wells drilled while the industry has spent billions exploring in other parts of the world.

The oil companies are not necessarily our friends, nor are they our enemies; they are simply our business partners. We must set policies that are good for the state and good for the industry, or they will simply invest their dollars elsewhere, which is not good for the state.

When Gov. Frank Murkowski took office, Alaska ranked dead last in the world in providing incentives for oil and gas exploration. For a state that depends on oil and gas for 80 percent of its revenue, it is inexcusable that Alaska has been allowed to slip to last place.

As a result, there were only a handful of exploration wells drilled in Alaska in the past several years, and fewer were planned for this season. Fortunately, the governor and the Republican majority have begun to reverse this trend.

To determine the value of the tax incentive to Alaskans, think about it in terms of a cost-benefit analysis. In order for oil companies to receive tax credits totaling \$100 million, they would have to invest a total of \$500 million to drill new exploratory wells. Most of this money would be spent in Alaska for workers and for supplies. Using a modest multiplier for the other expenditures associated with drilling the wells that oil companies must make, the value to Alaska's economy is estimated to be about \$1 billion.

That's quite a return on a tax credit, whether or not oil or gas is discovered. If oil is discovered, obviously the long-term benefits are far greater.

I have spent my entire career in the private sector. Although I realize that we cannot operate all government functions as if they were a business, we can bring in a mind-set of how to fix our

structural problem. We must either increase revenues or decrease spending. I have a difficult time taking seriously people who voted against every budget cut, against every revenue measure, and then against every incentive aimed at increasing our natural resources. Good politics for them, perhaps, but bad public policy for all of us.

— *Ralph Samuels, a Republican, represents Midtown in the Alaska House of Representatives*

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