

Alaska Can't Tax Its Way To A Gas Pipeline

by Governor Frank H. Murkowski

Remember David Stockman and Art Laffer? They were the architects of President Reagan's tax plan to relieve the country of the high inflation and high unemployment of the Jimmy Carter years. Their basic idea was simple—lower taxes mean greater economic growth and thus increased overall wealth for the nation.

On February 20, the chief executive officers of the producer group, BP, ConocoPhillips and ExxonMobil, accepted my oil tax modernization plan, which included a 20 percent net profits tax rate and a 20 percent tax credit. This is the proposed replacement for the current oil production tax. Based upon this 20/20 proposal and the assumption that oil fiscal certainty would be included in the gas contract, the CEOs also agreed to move forward on the natural gas pipeline contract, which had been part of our negotiations.

Some legislators have proposed to change the agreement by increasing the tax rate from 20 to 25 percent. Their reason? Outside consultants recommended a range that went up to 25 percent. (The industry proposed 12 ½ percent.) Easy to propose, because the consultants do not bear the risk of underwriting a \$20-plus billion project that will not deliver gas until 2012. Moreover, none of the outside consultants put their Errors and Omissions Policy on the

line by guaranteeing that Alaska would still get a gas pipeline if the rate were raised to 25 percent! They can't do it because the risk is too great. Neither can Alaska take the risk of not getting a gas pipeline.

The Legislature needs to ask itself this question: is a short-term, five percent higher severance tax worth risking: a) a gas pipeline that returns \$70 billion, b) a 20 year extension of the Trans-Alaska oil pipeline; and, c) long-term oil taxes and royalties from the extended life of TAPS?

My 20/20 proposal will provide the following benefits to Alaska:

- The gas pipeline will extend the life of TAPS from 2030 to 2050, adding two billion barrels of production and bringing in increased royalties and severance taxes. At current oil prices (\$60/bbl), the TAPS extension will result in \$14 billion in additional revenues to Alaska.
- With gas at \$7.00 per MCF, the gas pipeline will bring the state more than \$70 billion in revenue over 35 years in real 2005 dollars. This assumes 4.5 billion cubic feet per day. The state will realize more if the gas pipeline is expanded to 5.9 billion cubic feet per day.
- My petroleum production tax legislation will bring the state approximately \$750 million more this year. That is nearly double what the industry is paying under the

current ELF (Economic Limit Factor) based tax system. This would likely grow to \$1.5 billion several years from now, as revenues from an ELF-based production tax would have continued to decline.

My proposal has been accepted by the producers. As a consequence, my 20/20 proposal would get us the \$70 billion from a gas pipeline, and the life of TAPS would be extended for 20 years from 2030 to 2050. The state would earn \$14 billion in oil royalties and taxes between 2030 and 2050 that it would lose if there were no gas pipeline.

That revenue is at risk if the Legislature seeks to increase the tax rate. In essence, some legislators are risking \$70 billion in gas revenue and \$14 billion additional in oil revenue for a short term tax increase. Remember also that 25 percent of the royalties from this revenue stream will go right into the Permanent Fund.

Our Legislature should think seriously about the risk/reward balance, consider Alaska's financial well being and adopt my 20/20 plan, which assures a gas pipeline for Alaska. Let's follow the path of our predecessors who realized that we cannot tax our way into prosperity. I am satisfied that this is a responsible path that meets the requirement of Alaska's Constitution, that resources be maximized for the benefit of all Alaskans.