

# RESOURCE REVIEW

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Oil prices for North Slope oil are recovering as the economy begins to reopen.

## Oil prices bottom in March, worst may be over for Alaska

Alaska was looking forward to one of the most significant exploration seasons on the North Slope this year, then came the COVID-19 global pandemic, forcing most people to stay home and bringing air travel to a near standstill. A historic and epic collapse in oil prices followed, hammering Alaska oil producers and state finances.

Alaska North Slope crude fell from near \$70 per barrel at the beginning of the year to negative \$2.68 per barrel on April 20th.

Like the rest of the nation, Alaska now finds itself in a deep recession, just one year after it emerged from a five-year downturn. A record 80,000 Alaskans have filed for unemployment this spring and deeply-depressed oil prices are forcing Alaska's biggest revenue-generating industry to pull back on production for now.

The Department of Revenue's (DOR) spring revenue forecast, which looked poor when it was released April 6th, is likely optimistic now – given what happened later in the month. What started as a small budget surplus before the Legislature approved this year's Permanent Fund Dividend of \$1,000, has turned into a \$1.3 billion deficit that could top \$1 billion again next year, according to Legislative Finance projections.

DOR has revised its spring forecast downward by nearly \$530 million based on Alaska oil prices averaging below \$30 per barrel for the rest of the 2020 fiscal year, ending June 30th.

North Slope oil stabilized in the \$20 to \$30 per barrel range in mid-May as more countries moved ahead with plans to relax economic and social lockdowns put in place to halt the pandemic and as more output was shut in. DOR now expects Alaska oil to average \$37 per barrel in fiscal year 2021, down from nearly \$60 in its earlier projections.

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## STRONG SUPPORT FOR WILLOW PROJECT AT FINAL PUBLIC HEARING

A strong contingent of RDC members and others testified in support of developing the Willow oil and gas prospect in the National Petroleum Reserve – Alaska (NPR-A) at a statewide virtual public hearing in late April.

Specifically, overwhelming support was expressed at the hearing for Alternative B and module transfer Option 3 in a Supplemental Draft Environmental Impact Statement (SDEIS) for the \$4-\$6 billion Willow project. Option 3 addresses concerns from North Slope communities about a gravel island's potential impacts on marine mammal subsistence activities and decreases the amount of gravel needed for the project. Alternative B also reflects feedback from North Slope stakeholders that minimize the impact of the project.

Production from Willow would help meet the purpose of the National Petroleum Reserve-Alaska, which is to develop America's energy resources. The 23-million acre reserve was set aside nearly a century ago for its petroleum value. In an updated report, the U.S. Geological Survey estimates the reserve could hold 9 billion barrels of oil.

Production from Willow could reach more than 120,000 barrels per day and would serve to help maintain the integrity of the Trans-Alaska Pipeline System (TAPS).

The Willow project could create more than 2,000 construction jobs and 300 permanent jobs at a time when

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# Frequently asked questions on the oil tax ballot measure

## **WHAT'S THE DEAL WITH OUR CURRENT OIL TAX STRUCTURE?**

Under our old tax structure, Alaska's oil production experienced a serious downward trend, declining on average 6% per year, while investment and production were booming in other oil-producing states.

Under the oil tax reforms passed in 2013 and ratified by voters in 2014, oil production has stabilized, even during a time of meager oil prices. Last year (Fiscal Year 2019), Alaska produced 75,000 more barrels of oil per day than expected under the old tax structure.

Our current tax structure encourages new investment to boost oil production. Oil companies have responded by spending billions on new development projects. According to the Alaska Department of Natural Resources, the 2019 exploration season reached its highest level in over 20 years. In fact, companies have identified projects in existing and new fields that could add hundreds of thousands of barrels of new oil in the pipeline and result in more than \$13 billion in new capital spending.

Billions of dollars have been injected into our economy for new projects in part because of the current oil tax law. The impact on Alaska is more jobs, more production, and more long-term revenue for the State once oil prices recover.

## **WILL THIS BALLOT MEASURE HURT NEW DISCOVERIES, PRODUCERS AND EXPLORERS?**

Yes. Raising taxes at this level will drive companies of all sizes to reduce their spending in Alaska.

The proposed ballot measure increases taxes by at least 300% at \$60 per barrel oil prices, according to an independent economic analysis. Some companies that operate in the older, higher producing fields targeted by this tax increase are the same companies investing and developing new, promising fields.

Think of it this way: a family has two income earners and one person's income taxes suddenly increase by 300%. A tax hike at that level would obviously impact their household finances as they would have less income to spend. To claim that oil producers can absorb a 300%-plus tax increase without impacting investment ignores common sense and basic economics.

New entrants to Alaska who make major finds will also eventually face these steep tax rates. As new companies look down the road at significant tax increases, Alaska's economic growth and jobs will suffer.

## **ALASKA IS FACING SERIOUS BUDGET PROBLEMS. WHY SHOULDN'T WE JUST RAISE OIL TAXES TO FIX THEM?**

Alaska state government is dealing with important and difficult budget decisions right now. However, drastically raising taxes on the industry that accounts for one-quarter of all jobs and wages in Alaska, and expecting no negative impact, is unrealistic. Tax hikes of this magnitude on the oil industry may provide a short-term boost to the state budget but will have serious, long-term consequences for our economy.

If this ballot measure were to pass, investment would be impacted, leading to production decreases and more job losses. In the end, Alaska would suffer real, long-term, and perhaps irreversible economic losses.

## **WHY IS IT SO IMPORTANT TO KEEP ALASKA COMPETITIVE?**

Alaska already relies on the oil industry to provide critical revenue for public services, the Permanent Fund, infrastructure, and maintaining a third of our workforce.

The good news is Alaska has a lot of oil and gas remaining. With recent exploration activity on the North Slope at its highest level in 20 years, there's a lot to be excited about as our economy recovers. New discoveries and potential projects on the horizon represent hundreds of thousands of barrels of daily production and over \$13 billion in new investment.

The success of these new projects is critical to Alaska's long-term economic outlook. Drastically increasing taxes is guaranteed to make Alaska less attractive to companies both big and small. If Alaska loses that essential investment, we lose jobs and revenue, as well.

As any economist will tell you, if you want less of something, tax it.

Source: [OneALASKA.com](http://OneALASKA.com)

Paid for by OneALASKA, Anchorage, AK. Chantal Walsh, chair, Nick Begich, Genevieve Bell, Gary Dixon, Jason Grenn, Crawford Patkotak, Bill Popp, Julie Sande, Jill Schaefer, John Sturgeon, Angie Tallant, Jodi Taylor approved this message. Top three contributors are ConocoPhillips Alaska, Anchorage, Alaska, ExxonMobil, Anchorage, Alaska, and Hilcorp, Anchorage, Alaska.





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Growing Alaska Through Responsible Resource Development

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## RESOURCE DEVELOPMENT COUNCIL

is an Alaskan, non-profit, membership-funded organization comprised of individuals and companies from Alaska's oil and gas, mining, timber, tourism, and fisheries industries. RDC's purpose is to link these diverse industries together to encourage a strong, diversified private sector and grow Alaska through responsible resource development.

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## CELEBRATING MINING IN MAY

A Message from the Executive Director

On May 10th, RDC along with the Alaska Miners Association, celebrated Alaska Mining Day. AMA hosted Governor Michael J. Dunleavy (video: [alaskaminers.org](http://alaskaminers.org)) for a brief address to recognize the importance of mining in Alaska.

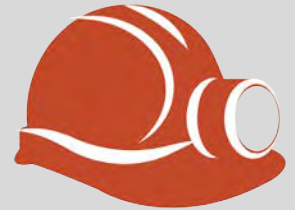
Deantha Crockett, AMA executive director, wrote to miners across the state:

“Established in 2013, Alaska Mining Day was created through legislation sponsored by Senator Cathy Giessel ‘to recognize and honor the intrepid individuals and industry that played an enormous role in settling and developing the territory and the state and that continue to contribute to the economy of the state.’

“On May 10, 1872, the General Mining Act of the United States was approved, which governs mineral development on federal lands. This law has been amended more than 50 times but the essential principles remain in place: if a citizen explores federal public land not otherwise designated as a park, refuge, etc., and with their own energy, intellect, finances, and hard work and finds a valuable mineral deposit, that citizen, after obtaining the required environmental and operating permits, has the right to develop that mineral deposit.

Today, mining is a top economic driver for our state. Alaska's six large mines, hundreds of placer mines, and dozens of exploration projects provide for 9,400 jobs with an average annual wage of \$112,800; twice the state average. These jobs employ residents in more than 75 communities throughout Alaska, over half of which are in rural areas with few other job opportunities. In 2019, our mines contributed nearly \$150 million in local and state government revenues, and paid \$242 million to Alaska Native Corporations throughout the state.”

Thank you to all miners across Alaska, both large and small. Your contribution to not only our economy, but also our nation is important.



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Paid for by OneALASKA, Anchorage, AK. Chantal Walsh, chair, Nick Begich, Genevieve Bell, Gary Dixon, Jason Grenn, Clayford Patkotak, Bill Popp, Julie Sande, Jill Schaefer, John Sturgeon, Jodi Taylor approved this message. Top three contributors are ExxonMobil, Anchorage, Alaska, ConocoPhillips Alaska, Anchorage, Alaska and Hifcorp, Anchorage, Alaska.

# Oil crash brings challenges; prices begin to recover

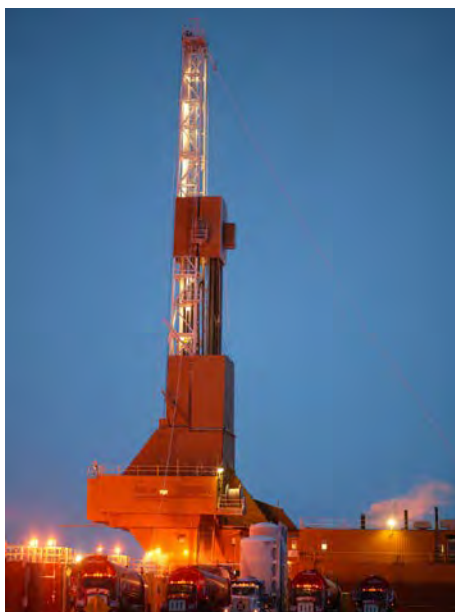
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At \$10 per barrel, producers were barely able to cover the cost of transporting the oil from the North Slope to West Coast markets, which have been receiving tankers full of cheap Saudi oil. Meanwhile, the breakeven for North Slope operations is generally around \$40 per barrel.

Amid the global oversupply of crude, Alyeska Pipeline Service Company said in late April that it had begun to cut Trans-Alaska Pipeline System throughput by 10 percent or 50,000 barrels per day through the end of May to deal with a lack of storage capacity on the West Coast. However, similar but shorter cuts have occurred in the past, and sometimes at higher levels, to manage high inventories.

ConocoPhillips also announced it will cut oil production in Alaska by about 100,000 barrels per day for the month of June in response to “unacceptably low oil prices.” The company reported sharp production cuts elsewhere and a loss of \$1.7 billion in the first quarter of 2020.

In a statement, ConocoPhillips said the cuts to production underscore “the extraordinary challenges currently facing the oil and natural gas industry in Alaska and elsewhere.”



Despite the bad news and the economic toll the pandemic has inflicted, there are glimmers of light shining over the horizon as analysts believe oil prices bottomed in April and are likely to rise from here.

Progress is occurring on promising COVID therapeutic drugs and potential vaccines. Millions are beginning to return to work, injecting a degree of cautious optimism into the oil market, which means the worst may have passed for Alaska.

Analysts caution that the oil market is still vulnerable and the road to recovery will be long and uncertain. Even with global producers scaling back operations, storage will continue to be an issue. However, oil prices are expected to recover, especially North Slope crude, which has been selling at a deep discount to Lower 48 oil. Once West Coast demand picks up, North Slope oil could once again sell for a premium.

Goldman Sachs recently raised its estimate for West Texas crude in 2021 to \$51 per barrel, based on a gradual global economic recovery and production cuts.

The U.S. Energy Department recently reported a surprise decrease in domestic crude stocks and the International Energy Agency said global demand could return in the second half of the year as economies recover and production cuts take hold.

Bright spots are emerging. ConocoPhillips’ budget cuts on the North Slope have been comparatively small to those outside Alaska, Hilcorp is continuing with its North Slope and Cook Inlet drilling programs, and Oil Search has had small employment reductions in Alaska. Meanwhile, ConocoPhillips’ employee count remains stable and its Willow project is on track with permits supporting development expected this summer.

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## North Slope Willow project is needed now more than ever

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Alaskans need jobs. The project could generate more than \$10 billion in federal, state, and North Slope Borough revenue.

The SDEIS included a wide range of alternatives that contain measures to avoid or mitigate surface impacts and minimize ecological disturbance throughout the program area.

“Thanks to continuing improvements in technology, practices, and oversight, the oil industry has demonstrated over the past 40 years that North Slope energy development and environmental stewardship can and do coexist,” testified Marleanna Hall, executive director, RDC. “The industry has a proven track record of responsible development in sensitive areas, protecting the environment, wildlife, and subsistence needs of local residents.”

Extensive mitigation and engineering design features will be incorporated into the Willow project. Pipelines will be elevated to at least seven feet and separated from roads to allow for caribou movements. Engineering features like this are incorporated throughout the project to minimize environmental impact.

Hall acknowledged there are special interests that are opposed to further development, advocating for leaving oil in the ground.

“Even in an era of climate change, reality requires continued

development of America’s oil and gas resources,” Hall pointed out. “We don’t deny renewable energy is a growing part of America’s energy portfolio, but it is still only projected to account for a minority of American energy production in 2040,” she explained. “Every barrel of oil not developed in America will simply be imported from overseas where environmental regulations are often weaker and the carbon footprint larger.”

U.S. Senators Lisa Murkowski, Dan Sullivan, and Congressman Don Young wrote a letter urging BLM to finalize the SDEIS.

“There is no doubt the COVID-19 crisis has introduced challenges to business operations, but we understand BLM has been extraordinarily responsive to these challenges to engage all interested parties in the review and development of the supplemental EIS. A critical part of our recovery from this crisis is for agencies, like BLM, to ensure that economic development and infrastructure projects have the permits they need to move forward and that reviews are not delayed or deferred. It is also important to acknowledge this is a supplemental EIS. It is being developed due to the request of the applicant to modify their project in response to community engagement, including feedback gathered during the extended 60-day comment period for the underlying EIS at the end of last year.”



# Concerns expressed with proposed seismic survey model



The oil industry has operated on the North Slope for decades under Marine Mammal Protection Act authorizations. Through these regulatory programs, the industry has gained extensive experience implementing mitigation measures to protect polar bears and carrying out monitoring and reporting on polar bear behavior and dens.

**“Use of the model for all activity across the North Slope would have a significant detrimental effect on business and the way of life in the Arctic.”**

RDC submitted comments to the U.S. Fish and Wildlife Service (USFWS) last month expressing concerns with an analytical model the agency is considering using to evaluate how various seismic survey designs could affect maternal denning of polar bears in the Arctic National Wildlife Refuge (ANWR).

The Alaska Oil and Gas Association (AOGA) formed a working group to conduct a technical critique of the model’s assumptions. In its review, the working group found many of the model’s assumptions to be overly conservative and a number not supported by the science. As a result, the working group found these assumptions skew the model, leading to a distorted conclusion.

The oil industry has operated on the North Slope for decades under Marine Mammal Protection Act authorizations. Through these regulatory programs, the industry has gained extensive experience implementing mitigation measures to protect polar bears and carrying out monitoring and reporting on polar bear behavior and dens. The industry’s monitoring database spans three decades and includes thousands of polar bear observations. The USFWS has found that these programs are effective and

that industry activities have only a “negligible impact” on polar bears.

In its comments on the model, AOGA outlined various measures that either are taking place or may be adopted to mitigate the effects of disturbance and protect cubs. Mitigation and monitoring methods to identify and avoid disruptions to polar bears and denning include additional aerial infrared surveys to the use of scent-trained dogs, alternative technologies, and a well-trained workforce. Additional infrared surveys could increase the proportion of dens detected and should be incorporated into the model when evaluating projects.

Both RDC and AOGA agree that existing and supplemental mitigation measures should be closely examined prior to the use of this model either for the seismic program described in an associated manuscript or for future use as a management tool. Consideration of mitigation measures should be included in analyzing any project expected to impact polar bears.

A serious concern of RDC is the potential use of the model as a management tool of community activity on the North Slope. If the USFWS elected to use the Wilson model to manage existing and future community

activity, RDC warned essential goods and services to support local communities could be severely impacted. Even numerous research studies could be determined to be harmful to denning bears, aircraft travel could be prohibited in many areas, and development would be limited.

“Use of the model for all activity across the North Slope would have a significant detrimental effect on business and the way of life in the Arctic,” RDC said. “In addition, the expansion of community infrastructure, including land transportation connectivity between villages, could be shut down. These are serious concerns of our members on the North Slope and elsewhere in Alaska.”

AOGA pointed out in its comments that the model did not include the entire suite of mitigation and management tools required by the USFWS and utilized as a part of industry best practices.

Given the flaws captured in AOGA’s comments and the limitations of the model, as well as a potential application of the model to other industry and community activity elsewhere on the North Slope, RDC told the USFWS it could not support the use of this model as a management tool for future activities.



# WE'RE CUTTING EMISSIONS THROUGH INNOVATION

## A Message from RDC President Jeanine St. John

April 22nd marked the 50th anniversary of Earth Day. The occasion gives us an opportunity to reflect on the oil, gas, and coal industries' commitment to environmental progress and the significant strides our country has made in reducing emissions. This progress has come through technological innovation, government policies, and direct action from industry.

While Earth Day is typically an opportunity for industry opponents to beat the drum for their "keep it in the ground" campaign, we need to change the narrative and inform our neighbors and others on the importance of developing our energy resources.

Government agencies such as the Energy Information Administration have projected demand for oil, natural gas, and coal will continue to increase for decades, even as the nation transitions to renewable energy. The story we must share is that industry is committed to climate solutions and the environment while still providing reliable and affordable energy. In addition, America is proving it has the ability to consume energy more efficiently and in cleaner ways.

Consider these facts from the American Petroleum Institute and Consumer Energy Alliance:

- In the past decade, America has transitioned from being dependent on foreign energy to being one of the world's top energy exporters. Net energy imports have fallen to the lowest level in half a century.
- America's abundant supply of natural gas helped reduce the average American's household spending on energy 13.7% between 2008 and 2018 while costs for health care, education, and food have increased substantially.
- America is now producing more energy than ever while reducing greenhouse gas emissions.
- In 2017 alone, America spent \$15.9 billion on new technology, cleaner fuels, and other environmental initiatives.
- American energy workers are key players in driving U.S. CO2 emissions to the lowest levels in a generation, helping America reduce emissions more than any other country, while producing

## America is now producing more energy than ever while reducing greenhouse gas emissions.

- energy more efficiently and with a smaller environmental footprint.
- Natural gas emissions decreased nearly 24% from 1990 to 2018, as production increased 71%.
- From 2017 to 2018, natural gas production increased to 12% while methane emissions from production decreased nearly 2%.
- Investments by U.S. refiners now enable the production of lower sulfur fuel that powers ships around the world while reducing SOx emissions by 85%.
- The natural gas and oil industries have invested more than \$108 billion in greenhouse gas mitigating technologies.
- Between 2005 and 2018, the U.S. reduced its CO2 emissions by 12%, even as the rest of the world increased emissions by 29%.
- Between 2011 and 2018, in five of the major producing areas of America, methane emissions relative to production fell 67%.

Encouraging progress is also occurring in the coal industry. According to the American Coal Council, advanced coal technologies have successfully helped reduce regulated emissions by 60 percent since 1970. While coal use globally has more than doubled over the past 40 years, emissions of SO, NOx, particulates, ozone, lead, and CO have decreased.

Building on these successes, industry and government efforts are underway to develop carbon management technologies. Billions of dollars are being invested to reduce emissions, including projects now underway to improve power plant efficiency and to capture and store carbon.

The U.S. will continue leading in finding solutions to the nation's challenges – on energy, environmental protection, and the economy. Fossil fuels power our daily lives here in Alaska and across the nation. Lawmakers on both sides of the aisle and all of us can be proud of this progress in fueling economic growth while cutting emissions to the lowest levels in a generation.

## Alaska salmon harvests to be down this summer

Alaska's total salmon catch for 2020 is expected to decline 36% from last year's harvest of 207 million fish, the eighth largest on record, valued at \$658 million dock-side.

In the Run Forecasts and Harvest Projections and Review of the 2019 Season released by the Alaska Department of Fish and Game, managers are expecting a harvest of 133 million salmon in Alaska waters this summer. The decline is largely

due to a lower forecast for pink salmon of 60 million fish, a 53% decline from last year.

A catch of 48 million sockeye salmon compares to 55.5 million reds caught in Alaska last year, a drop of 13.3%.

A run of nearly 50 million sockeye is expected in Bristol Bay's nine river systems, 6 percent higher than the 10-year average. That should result in a harvest of 37 million reds, down from nearly 42 million last year.

Outside the Bristol Bay region, the outlook for salmon fisheries in most other areas of Alaska is down.

The commercial fishing industry will be watching consumer demand for Alaska wild salmon as strong sales are uncertain amid the COVID pandemic.

In Upper Cook Inlet, a run of about 4.3 million sockeye salmon is projected with a commercial harvest of 1.8 million fish.





# A DEVASTATING DECISION IN THE TOURISM INDUSTRY

Guest Column: By Ralph Samuels

Editor's Note: Recently, Carnival, Princess, and Holland America discontinued all Alaska cruises for the 2020 season, in addition to the earlier announcement regarding ships that crossed the Gulf of Alaska. Nearly 80% of sailings to Alaska for the 2020 season have been cancelled – a loss of 955,574 cruise passengers to the state. Coastal communities will bear the brunt of the economic impact. Cruise ship passengers represent 90% of visitors to Southeast Alaska.

I was born and raised in Alaska and have had a job since I was 15 years old. I don't recall ever crying at work. Until yesterday.

I work for Holland America Line and Princess Cruises and the Alaska tour company we operate, HAP.

HAP operates the Princess Lodges, Westmark Hotels, a large bus company, and a train company. It is a large and complex operation that generally spends the entire year planning on a five-month season and serves as a transportation and hotel company for hundreds of thousands of visitors to Alaska.

In April, we notified civic leaders, business leaders, local government officials, federal officials, and elected State leaders that HAP would not operate on the rail belt this summer. The 3,500 seasonal workers we normally hire will not be hired. The 34 restaurants and coffee shops we operate will not open, and the bed taxes and sales taxes our guests generate for local governments have simply disappeared.

The Denali Borough has a population of only about 1,400 residents, but 80% of their budget, mostly for their schools, comes directly from bed taxes. Those bed taxes are overwhelmingly generated by visitors who came off of cruise ships.

While cruise ships are the transportation of choice by which more than half of the visitors to Alaska make their way north, the backbone of the tourism industry are the dozens of tour operators that show off our State to people who have had it on their "bucket list" and have finally made their way here. The visitors may be adventurous, sedentary, old, young, single, with a large family, American or international. But they all want to see and feel Alaska. Mountains, rivers, wildlife, glaciers, and our unique culture are all shown off by the small Alaska owned tour companies.

These small companies depend on our volumes of guests, and we depend on their tours to best experience Alaska. In the long term neither of us can succeed without the other.

Not operating HAP this year was a very difficult decision, knowing the impacts on communities and the small businesses that depend on our many guests. But as the potential opening of the business got pushed further and further back, the decision simply had to be made. We are not capable of hiring and training the necessary thousands of employees for a five-week season.

When advised of this decision, most people were not surprised, but that doesn't mean they were not troubled. As difficult as it was to make those phone calls, it was much worse to receive them. Our hundreds of year-round employees were notified in the morning, and like the employees in many industries, they are also very concerned. Just a few months ago, our staff was busy hiring seasonal mechanics, waitstaff, cooks, drivers, tour guides, luggage handlers,



Cruise ship passengers take in the scenery in Glacier Bay.

housekeepers, bartenders, and myriad others.

Critics of the cruise industry often don't like our large size, but they usually fail to recognize the many individuals who make up our diverse, unique, and dedicated workforce – the true fabric of our company. They don't know the guy from Salcha who started his career washing busses, and 25 years later has earned his position of managing almost 3,000 guest rooms spread all over remote Alaska.

The critics rarely meet the woman who trains and manages specialized tour guides year-round, and on weekends runs 100 mile footraces in Alaska in February. And they certainly don't know the born-and-raised Alaskan and UAF graduate who serves as the Board President of the Anchorage Civic Orchestra. At our company, we have hundreds of individuals with their own unique stories who are vibrant members of our community, and collectively make tourism work for Alaska. Our employees and our tour partners are essential to tourism in Alaska.

As I said a number of times on the phone this spring, there isn't much of a silver lining to the news of HAP not operating on the rail belt this summer. Alaska Travel Industry Association President Sarah Leonard summed it up best in a media report when she simply said, "It's devastating."

Here is where Alaskans can offer to help. Go flight-seeing, hike in Denali, go river rafting, or on a kayak trip. Help out the small tour companies until we can resume the higher number of visitors that are required to sustain our visitor industry for the long term.

These small companies do a great job of showing off our state's rare beauty and providing one-of-a-kind adventures, and they are all right here, in our own back yard.

Ralph Samuels is a lifelong Alaskan that has worked in aviation, public service, and tourism. He is the Vice President of Holland America Group and serves on the RDC Executive Committee and is a Past President of the board.

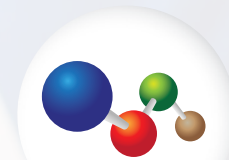
# TEACHING THE IMPORTANCE OF ALASKA'S NATURAL RESOURCES

**Young minds are Alaska's greatest resource.** It's our job to spark an interest and fuel their passion through education. ARE inspires future engineers, scientists, operators and regulators. Students learn the importance of Alaska's resources as we cultivate responsible stewards of the minerals and energy of our state.

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