WE'VE LEARNED TO TAILOR OUR APPROACH TO BUSINESS

Being innovative is simply a part of life for the Inupiaq family of companies has successfully expanded throughout the United States and beyond. Because tailoring our approach and stretching our resources to meet unique challenges is part of our culture. And that's a lesson that continues to serve our clients today.

P.O. Box 129
Barrow, Alaska, U.S.A. 99723

Reality check

Low oil prices, declining production will take heavy toll on state economy, leaving serious consequences for all Alaskans

Alaska is facing grim economic times with low oil prices, declining North Slope production and a struggling oil industry that is scaling back Alaska operations to cope with the realities of operating in a low-price world oil market.

Perhaps no issue affecting Alaska's economy and its social fabric looms larger than declining oil production and world oil prices, which are as low as any time since 1973. With North Slope oil production accounting for 85 percent of all state revenues and as much as 40 percent of the jobs in Alaska, the state is facing grim economic times. The deeper the cuts to oil industry spending and employment in Alaska, the greater the shock wave to an economy largely dependent on oil.
Message from the Executive Director
by Becky L. Gay

20 years: A history of shaping the future

This year marks the beginning of RDC’s 20th year in business advocating and educating for sound resource development in Alaska.

From its modest beginnings as the Organization for the Management of Alaska’s Resources (OMAR), which was formed to work for an All-Alaska gasline, RDC has grown more diverse in its issues and more membership-oriented as an organization.

RDC certainly takes a long-term view toward development issues and it is a good sign since, incredibly enough, many of the issues are the same as in OMAR days! For instance, Alaska still doesn’t have a major gasline, but RDC hasn’t quit working on that issue. In fact, much of RDC’s work is involved in directly educating policy makers and individuals about basic resources and the need for access, stable taxation, power development, exploration lead-times and the markets for Alaska’s resources.

Without the volunteer efforts of our many statewide board members, RDC could not afford to be involved in the front lines of resource education and advocacy. There are many people to thank and recognize, but space does not permit. You know who you are and we thank you for continuing to support this effort.


RDC’s 20th Annual Meeting will be held Thursday, June 2 at the Sheraton Anchorage Hotel. All members and the general public are invited to attend the public luncheon forum of the Annual Meeting featuring Senator Ted Stevens and Congresswoman Don Young. New directions in public land use policies and their implications for Alaska’s economy will be discussed. Specific issues include reauthorization of the Endangered Species Act, the Clean Water Act, Mining Law reform, the National Biological Survey, new eco-system management of public and private lands, the phase-out of logging on public lands and a new outlook on ANWR.

As you can see, the issues in 1994 are just as complex and crucial to Alaskan interests as they were 20 years ago. The challenges, however, are greater today because a new breed of federal policy-makers and their environmental lobby have proclaimed re-source development on public lands "politically incorrect." With Alaska being a public land state heavily dependent on resource development for its economic base, this is an alarming trend.

RDC’s work on your behalf is more important than ever, considering the current political climate and the challenges our basic industries face. Our members face the same threats and by overcoming them together, we’re enjoying the fruits of our work: a prosperous and healthy Alaska.

20th Annual Meeting
Thursday, June 2, 1994
Howard Rock Ballroom
Sheraton Anchorage Hotel
12 Noon

A Strong Dose of Reality
New Directions in Public Land Policies and Implications for Alaska’s Economy

Senator Ted Stevens
Congressman Don Young

$10 per person
RSVP at 276-5700

Despite tough times in oil patch, potential still high in Alaska for major discoveries

(Continued from page 5)

during to PatPourchot, Executive Director of Commonwealth North. "There is no 'silver bullet' which will address that magnitude of our potential," said Pourchot, a former legislator. "To date, deficits have been met by spending some windfall and by liquidating reserves. It is clear, however, to most people who have studied the numbers that the reserves will soon be gone and because cuts along will not realistically bridge the 'gap.'"

Pourchot recommends holding state expenditures below inflation and postpone growth, pursuing non-need-based programs, reducing Permanent Fund Dividend expenditures, re-imposing a personal income tax, establishing consolidated accounting for existing reserves, continuing to promote marketing of North Slope gas, the opening of ANWRS east to the oil export ban and providing a positive economic and regulatory climate.

"Actions like reducing dividends and re-imposing an income tax are politically unpopular and will be strongly resisted," Pourchot said. "But if we don’t take tough, prudent steps now, all our reserves will be gone and far more Draconian remedies will be necessary in the very near future."

Realizing Alaska’s great potential

Alaska holds more promise and faces a potentially brighter future than many Alaskans imagine. New discoveries and ongoing development of North Slope oil and gas resources can continue to support a healthy economy well into the 21st Century.

The potential price for industry in Alaska is a heavy reliance on natural gas revenues. If oil yet to be discovered or converted into reserves in addition to the billions of barrels already booked as reserves. Alaskans had a heavy reliance in a short-term industry as the state will share the same rewards as industry.

"If we can present an idea of the kind of potential we at BP see on the North Slope when we look forward to the next 20 years, just think back 20 years and remember how all of us assessed the region in the early '70s," said John Morgan, President of BP Exploration (Alaska) Inc. "We counted on a total of about 10 billion barrels of recoverable production from a single field that would last for a quarter of a century."

Morgan explained that industry has already produced close to 10 billion barrels, yet a like amount is still booked in reserves awaiting production in a number of other fields. The potential has doubled over the past decade from new discoveries in smaller, marginal fields and from new technology that has enhanced recovery in maturing fields.

Morgan sees a lot of potential for the North Slope in the next two decades, including heavy oil comminution, new production hubs to the east and west of existing infrastructure and natural gas production. "Improved recovery, field extensions, capacity enhancement, exploration, technology and further cost reductions will yield billions of barrels of new oil and gas equivalent on the North Slope," Morgan said.

"One thing is clear: achieving the potential will require not only hard work and innovation, but ongoing investment," Morgan continued. "We should remember that some 50 percent of the production we project in Alaska in the year 2000 comes from investments not yet made. And particularly in the current global environment, the only way to secure the necessary investment capital is to compete for it."

International Competition

The competition for exploration and development dollars is fierce. The world has been literally opening up. Five years ago, 85 percent of the world’s undeveloped and yet-to-be found oil reserves were in areas inaccessible to the industry. Like the Berlin Wall, the barriers have come tumbling down.

New oil provinces are opening in former Soviet states, in the Middle East, in Asia, Vietnam, Venezuela, Nigeria, Russia and Angola. Each has its unique set of risks and potential rewards.

"The lack of clarity on the basis for paying state taxes and royalties -- after more than 16 years of production on the North Slope-- continues to be a major obstacle in Alaska. The growing gap between state government spending and revenues fuels our concern and uncertainty."

John C. Morgan
BP Exploration (Alaska) Inc.

With falling political barriers, industry is expanding overseas and limiting the scope of its activities elsewhere. Companies are becoming more selective in choosing which projects to pursue. ARCO, for example, spent more money exploring in Alaska last year than on all its international drilling. This year, however, the company will spend twice as much overseas than it will in the 49th state.

If Alaska is to realize its future potential, industry and the state must heed the realities of low oil prices, declining production and a fiercely competitive oil market and work together to overcome the challenges they pose.

And if Alaska is to compete for investment dollars necessary to develop future potential, clarity and stability in the fiscal and regulatory climate is imperative to give industry confidence to invest, oil executives stress.

"The lack of clarity on the basis for paying state taxes and royalties -- after more than 16 years of production on the North Slope-- continues to be a major obstacle in Alaska. The growing gap between state government spending and revenues fuels our concern and uncertainty."

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Guest Opinion
by Jacob Adams, President, Arctic Slope Regional Corporation

Arctic Slope Regional Corporation’s mission statement charges our management to work to enhance the economic freedoms of all shareholders. But we are constantly frustrated in this effort by our state government’s lack of fiscal responsibility. I would like to share my views on this issue with you, in hopes that together we could bring about some solutions.

The State of Alaska is currently in a fiscal crisis. Our economy is dominated by the production of natural resources, primarily oil, from the North Slope. But with oil prices and production dropping, Alaska simply does not have sufficient current revenues to support all the wishes of our politicians.

Though ASRC has its origins in federal land claims legislation, we are a private, for-profit corporation, whose Inupiat shareholders live primarily in the North Slope. Our economic policies, including the failure to address this current fiscal crisis, have enormous impact on our many business interests around the state.

The declines in production from Prudhoe Bay and adjacent fields has been obvious for several years. And I believe that crude oil prices, though unpredictable, will remain low for some time to come. OPEC has done nothing to change this, and international markets seem to indicate prices will stabilize below $15 per barrel.

But our leaders in Juneau are failing to face the hard fiscal facts that lower North Slope production and lower crude oil prices mean there are real limits to how much the state can spend.

The economic realities facing Alaska for the rest of the decade demand cuts in the cost of government. We cannot continue to spend beyond our means, then raise ever-increasing property taxes as the single source of “reserve” revenue.

I would not welcome tapping the Alaska Permanent Fund, nor, as long as Prudhoe Bay is still in production. The pipeline still carries 1.5 million barrels of oil a day. But we must start adapting now to the changing fiscal picture by trimming government operations and cutting budgets to match revenue projections.

As a local political officer, I learned that making necessary decisions is seldom easy or popular. But I also learned that failing to do so will only make the situation worse. Alaskans cannot continue to bury their heads in the sand. We need leadership and responsible decision-making, and we need it now.

I know very well there are many demands on the state budget. In rural Alaska, home to many ASRC shareholders and fellow Alaska Natives, there are great needs for basic water and sewer systems, fuel storage facilities, and more efficient social service delivery. But we must make some choices and do so responsibly.

Our leaders in Juneau need to face up to reality, and adjust their spending habits accordingly. Government should learn from private enterprise, which when faced with similar crises has used modern management to restructure, trim down and operate more efficiently.

All of Alaska, but especially our representatives in Juneau, must see that it is impossible to levy more taxes on North Slope producers without harming the basic structure of oil production in Alaska. Too many companies have left our state already.

We should believe the state oil industry’s assurances that it is restructuring by cutting costs, trimming staff to allow for better efficiency. But Alaska’s structural disadvantage in the competition for oil industry exploration and development dollars is only made worse by the Alaska government’s unstable natural resource development policies.

As a major oil industry contractor, ASRC’s success and the employment of many of our shareholders is closely tied to oil and gas development. Indeed, the importance of the oil industry to almost every element of Alaska’s economy cannot be overestimated. We all have a big stake in our government’s response to this fiscal crisis.

Our elected representatives may want to keep spending, force “big oil” to pay the bill and ignore industry pleas for fiscal sanity. But they cannot long ignore the combined voices of private citizens demanding a responsible solution to our current fiscal crisis.

I encourage you to contact your state senator and representative, and make your views clear on this critical issue.
Tough times in the oil industry mean tough times for Alaskans

(Continued from page 1)

To cope with the realities of low oil prices and declining production, North Slope oil producers are streamlining their operations and slashing spending.

Half the oil that could be produced in the year 2000 will only be produced if hundreds of investments which have not yet been made are made. This is oil the state is counting on to fund future budgets.

With capital already short because prices are so low, higher taxes would force yet another re-evaluation of every Alaska investment now being considered by our industry. The low oil prices have fallen below $2 billion. Next year's forecast is for slightly higher revenues of $1.7 billion, based on $13.97 a barrel.

The low oil price of $10.50 a barrel is the benchmark price of oil. At this price, the state will take in $1.64 billion this year, while sending a bad signal to those interested in coming here in the future.

ARCO Alaska President H.L. "Skip" Bilhartz said in the last several years, half a dozen oil companies have pulled out of Alaska and new few producers are investing in the state. Nearly 1,000 industry jobs have been eliminated. ARCO has not been immune to substantial cutbacks in its workforce.

Since 1991, through layoffs and attrition, we have eliminated more than 300 people in Alaska, Bilhartz said. This represents a 14 percent reduction in our work force. At a continuing price level of $14 or $15, our operations will have to be leaner still.

Budget gap, higher taxes fuel anxieties

The low price of oil is not the only force influencing industry decisions and cutbacks in Alaska.

"The gap has chilled industry interest in Alaska because the state has made a habit of increasing oil taxes when money is tight," Bilhartz explained. He warned that higher taxes would "deprive us of the cash we need to continue development of existing fields, even at the reduced price now proposed." Higher taxes would mean more spending cuts, fewer wells, lower capital investment in the state, the ARCO chief warned.

"With capital already short because prices are so low, higher taxes would force yet another re-evaluation of every Alaska investment now being considered by our industry," Bilhartz said. "Half the oil that could be produced in the year 2000 will only be produced if hundreds of investments which have not yet been made are made. This is oil the state is counting on to fund future budgets.

H.L. "Skip" Bilhartz President, ARCO Alaska

Downward spiral in oil prices

In real terms, the price of oil has been on a downward trend for the last 15 years, interrupted only by the Gulf War. Today's oil prices, even before the free-fall that began in November, are as low as at any time since 1973.

North Slope oil prices this fiscal year are expected to average their lowest since 1978, and the outlook for the coming year is not much better, the state Revenue Department reported recently.

When the fiscal year ends June 30, the average price per barrel is expected to be $13.97. A year ago, the price was $26.13 a barrel, the department said in its annual revenue forecast. The legislature last spring based this year's state budget on $13.97 a barrel.

The large deficits caused in part by low oil prices will not go away. Even under optimistic revenue forecasts, state government has $900 million are projected over the next several years. This exceeds the annual state spending for education and is more than the North Slope oil producers are expected to pay in taxes this year.

The industry by extending the statute of limitations on assessments and collections.

By reaching into the past to settle present budget problems, this retroactive tax policy will short-change the future of resource investment in Alaska," said PDC Executive Director Bickley Gay in recent testimony against the bill. "It sends chills to those who are here today, a very bad signal to those interested in coming here in the future.

Hicker's bill, the most controversial piece of legislation addressed in Juneau this year, was voted down on the House floor.

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