

# PoV: Oil tax increase will reduce investment in AK

- By FRANK MURKOWSKI

I urge the sponsors of the oil tax increase initiative to withdraw their support for it. Production from our legacy fields — Prudhoe, Kuparuk and Alpine — will decline naturally at about 5% per year without investment. So, we need new investment simply to maintain the existing level of production and to fund and develop new fields.

To obtain new investment we must compete for investment capital. Because the Alaska Arctic is one of the highest cost areas to produce oil in the world, we must have a competitive business climate to attract capital. Investors look to the “highest return (profit) with the least risk.” They can go anywhere in the world to make new discoveries.

For these reasons alone, there is no doubt that if passed the proposed oil tax increase initiative will reduce North Slope investment which will reduce production-oil flowing down the TransAlaska Pipeline. This will result in less oil revenue to the State of Alaska — completely the reverse of what its sponsors claim they want to do. The oil tax initiative is within our control and Alaskans can collectively decide not to support it.

We should do so because there have been three new developments outside Alaska’s control that will suppress or halt investment in North Slope production. 1) The coronavirus is idling people, trucks and ships, causing a collapse in worldwide demand for oil. 2) After price-setting talks between the Organization of the Petroleum Exporting Countries and Russia broke down this month, the Saudis opted to increase oil production, which has flooded the market with oil and sent prices spiraling downward to levels not seen since the late 1990s. 3) Environmental groups have successfully used greenmail tactics to cause major banks like Goldman Sachs, JP Morgan and Wells Fargo to refuse to provide financing for development of North Slope oil.

Goldman Sachs predicts that nearly one-third of the oil and oil services companies in the country will vanish, acquired by rivals or driven out of business as a consequence of the coronavirus reduction in demand. The Saudi-Russian oil war, which will increase production of oil for which there is decreasing demand, will continue to drive down prices: “We’ll see a huge surge in oil supply over the next few weeks and no demand for it. We think the price will dip into the \$20 range and could even touch the teens,” said Francisco Blanch, head of commodities and derivatives research at Bank of America. Most U.S. and European companies can’t survive for long with oil below \$40 a barrel, many analysts say. Compare today’s price of \$32 per barrel with \$145 per barrel in 2008.

If we allow oil production to decline because of non-competitive and unreasonable tax rates, at a certain point the profits will be reduced and will not offset the operating costs. Then the pipeline will be shut down and removed. Alaska’s largest revenue source — oil — will stop flowing and the impact on the state’s economy will be catastrophic.

Under these circumstances, it is irresponsible in the extreme to attempt to increase the production tax on the producers by 300%. The result will be less investment, less production and less State revenue. If the sponsors care about the Alaskan economy and Alaskans, they will withdraw support for this misguided initiative.

For all Alaskans, please vote no on the oil tax increase initiative.

*Frank H. Murkowski served as governor of the State of Alaska from 2002 to 2006, and in the U.S. Senate from 1981 to 2002.*