Reform can fix flawed oil tax system
ADN Compass editorial

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What would you say if the state exempted almost every new oil field, even some of the largest ones in the country, from Alaska's 15 percent oil production tax? And what if you knew the state was handing out this tax exemption, not just at $12 per barrel when oil profits are skinny, but at $30, $40 and $50 per barrel when oil production is wildly profitable?

For the past year, we've worked to educate our colleagues and the public that it's time to reform some very outdated tax exemptions. By objective measures, these exemptions threaten to cost the state more than $1 billion this year.

Alaska's oil tax system greatly shortchanges Alaskans at average and high prices, when oil production generates billions in windfall revenue for oil companies. On the flip side, at very low prices when oil production is less profitable the state modestly overtaxes industry. The threat of high taxes at times of low prices can deter investment on the North Slope. Our Alaska Fair Share Bill (House Bill 63 and Senate Bill 50), which we filed last year and again last week, fixes both problems.

When we began our efforts a year ago, Gov. Frank Murkowski and some legislative leaders responded that Alaska's current tax exemptions were fine as is. We continued our push, and to the governor's credit, he's changed course. Last week he proposed a solution for some of the many profitable fields that are currently exempted, or largely exempted from Alaska's 15 percent oil production tax.

We applaud the governor for taking this step and for joining us in saying that the job won't be completed until the Legislature takes a close look at the many profitable fields that will continue to pay none or almost none of the state's production tax.

Today, roughly 60 million barrels of oil a year leave the North Slope with a complete or nearly complete exemption from the state's 15 percent production tax. Even under the governor's proposal, which was limited because of what he can do without a statutory change, 50 million barrels per year will still leave the state paying no or almost no production tax. We need action by the Legislature to produce a fix to this problem.

Looking at a few numbers helps determine whether the state is receiving a fair share for our oil.

One measure is to compare the revenue the state and industry receive from Alaska oil. According to estimates from the Department of Revenue, last year industry received roughly $1 billion more in pure profits from North Slope operations than the state received in total oil-related taxes and royalties.

In just the first six months of this fiscal year (the state fiscal year begins July 1) oil company profits have dwarfed state revenue by more than $1 billion. Oil has averaged $41 per barrel in this period. As the price of oil increases, the gap grows by leaps and bounds. If oil averages $41 per barrel for the remainder of the fiscal year, current tax exemptions will send roughly $2.2 billion more in profits to North Slope producers than Alaska will receive for its tax and royalty share. Early estimates indicate the governor's proposal may raise $150 million next year, still leaving a very significant gap between oil industry profits and state revenue.

Here's another measure. On Wall Street, a 10 percent profit rate is considered healthy for a large company. A 2004 Department of Revenue estimate tells us that at $40 per barrel, North Slope producers generate a 40 percent profit margin on their operations. At $30 per barrel, which the federal government recently predicted would be the long-term price through 2025, industry earns 35 percent in profits. If oil sinks to $20 per barrel, that profit rate remains a healthy 25 percent. That's why BP announced that whenever oil rises above $20 per barrel it will buy back its stock and return its excess windfall profits to shareholders.

With interest by legislators, we can produce a fair return for Alaskans and a fair investment climate for producers. With $1 billion ready to leave the state in excessive tax exemptions this year, this isn't a problem we should ignore.