



THE ALLIANCE

... for responsible development of Alaska's Oil, Gas & Mineral Resources

SENATE TESTIMONY

on SB 2001

October 23, 2007

Thank you, Chairman Huggins. My name is Paul Laird. I'm general manager and testifying on behalf of the Alaska Support Industry Alliance, a trade organization representing companies and individuals that provide goods and services to Alaska's oil, gas and mining industries.

Our members range from small local contractors and vendors to the largest Alaska Native and Alaska-based corporations to the Alaska subsidiaries of multinational service companies. Our members don't make the multibillion-dollar investments in oil and gas development that fuel Alaska's economy ... our 400 member companies and their 35,000-plus Alaska employees make those investments work.

In turn, those investments put our members and their employees to work.

As companies and workers whose livelihoods depend on oil and gas investment, we're deeply concerned about constant changes in fiscal policy that put some investments at risk.

As Alaskans whose economic future depends on the level of oil and gas production in our state, we're deeply concerned about the impact of an even steeper rate of production decline on our families' and our own ability to build long-term futures here.

Chairman Huggins, members of the Senate Resources Committee, I will be brief in my remarks to you today. We don't know if a 22.5% tax rate with the current escalator and credits strikes the right balance between ensuring the state its fair share of OIL revenues and encouraging long-term investment and production. We don't know if 25% is the right rate ... or 20 ... or 15.

None of us does ... not the Alliance, not the legislature, not the administration and not even the producers. Regulations for the Petroleum Production Tax system just 14 months ago haven't been finalized, and the first returns haven't been audited.

ALASKA SUPPORT INDUSTRY ALLIANCE

It's difficult for us to understand why we're back here so soon to fix a system that hasn't even had time to work, let alone for there to be compelling evidence that it's broken. That case simply hasn't been made; you've been presented with a plethora of projections and a paucity of proof.

We do know that the PPT has already generated an additional \$1 billion in state revenues.

We do know that the increase being proposed would be the third major severance tax increase on the industry in the past three years.

We do know that every dollar in additional taxes is a dollar that won't be invested in sustaining production, in creating business opportunities for Alaska companies like Alliance members, in generating good-paying private sector jobs for Alaskans.

We do know that throughput in Trans-Alaska Pipeline has already declined by two-thirds, and despite multibillion-dollar investments by the industry, it continues to decline by 6% a year.

We do know that without those investments, TAPS will reach its economic threshold in the next 15 or 20 years instead of the the next 50 or 60.

We do know that our 400 members and many of their 35,000 Alaska employees want to be here long after the legislature's and the administration's consultants on this issue are gone ... as long as there are still enough economic opportunities to keep them here. They'll be the ones to bear the consequences if higher taxes and higher costs really do result in less investment ... a novel economic concept, to be sure.

We do know that while the extent to which yet another tax increase will discourage investment is debatable, the fact that it will do absolutely nothing to encourage new oil production and construction of a gas project is not.

Isn't that what this discussion should be about, Mr. Chairman and members of this committee: how we can work together to promote investments ... how we can ensure our "fair share" of long-term jobs and business opportunities for Alaskans, rather than how much more money we can extract from the private sector without further risking our long-term future ... just so state government can have more money to spend in the short term?

What's the plan when this \$700-900 million a year tax increase isn't enough to sustain state spending?

In your wisdom, when you adopted the new PPT in 2006 after six months of extensive deliberations, aggressive debate and countless votes, you included provisions requiring a complete review of the system five years later - in 2011. You understood then that it would take several years to reasonably determine how and if it's working.

So far, there's been no compelling evidence to the contrary. It will still take several years to responsibly make that determination.

Do what you need to do in the short term to make the PPT work - hire more auditors, pay them more, take steps to ensure the timely flow of accurate data from the producers to the state, authorize the state to buy back credits.

But on behalf of the Alliance's 400 member organizations and their 35,000-plus Alaska employees, all Alaska businesses and workers and Alaska's economic future, we urge you to reject premature, fundamental changes to the PPT that will increase taxes, increase costs and jeopardize the economics of critical long-term investments and put production, Alaska jobs and business opportunities at risk.

Thank you.