Proposed “Fair Share” Oil Tax Ballot Initiative

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“One-third of the *gross revenues* from the sale of our oil is a good standard to apply in determining if Alaskans are getting their fair share. Governor Hammond was a key architect of our economic relationship with the oil industry. He stated the original agreement was one-third to the state, one-third to the federal government, and one-third to the producers.”
The Problem

• Gross pie needs to be allocated among 4 slices, not three
• The 4\textsuperscript{th} slice is the upstream operating and capital development costs
## Income Summary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANS West Coast Price</td>
<td>$64</td>
</tr>
<tr>
<td>(Transportation)</td>
<td>-$9</td>
</tr>
<tr>
<td>Gross Value</td>
<td>$55</td>
</tr>
<tr>
<td>Upstream costs</td>
<td>-$27</td>
</tr>
<tr>
<td>Net Value</td>
<td>$28</td>
</tr>
</tbody>
</table>
Allocating $55 in Gross Value under Proposed Ballot Initiative

- Upstream Cost: $27 (49%)
- State: $19 (34%)
- Producers: $7 (13%)
- Feds: $2 (4%)

State Feds Producers Upstream Costs
($19) ($7) ($2) ($27) (49%) (34%) (13%) (4%)
**Gross Revenues**

- A 3-way split of revenues implies:
  - The producers spend $27/bbl to develop oil
  - Sell oil for $55
  - Pay taxes
  - Make $55 less taxes

- Of course they make $55 less taxes and the upstream costs

- The only way there is a 3-way split is to take the upstream costs out
  - That is what net revenues are
Provisions of Oil Tax Ballot Initiative:
(How gets 1/3 of gross at current prices)

• 35% of net value
• 10% gross minimum when price less than $50 (up from 4%)
• Up to 15% gross minimum at $70 (up from 4%)
• Elimination of per barrel credit
• Additional progressivity of 15% of net value greater than $50 (market price of $89):
  – 70% marginal tax rate
Additional Provisions of Initiative

• Applies to units that have produced more than 400 million barrels cumulatively, and more than 40,000 barrels a day in previous year (Prudhoe, Kuparuk, Alpine)

• Ring fencing of units (a company cannot offset income from one unit with losses from another)

• Additional reporting requirements
Competitiveness Analysis

• Government take: percentage of net income that goes to government (all taxes & royalties)

• Issues of judgment
  – Which peer groups?
  – Which costs?
  – Which metrics (mean, median, etc.)?

• Peers – other similar jurisdictions that competes with Alaska for investment
  – Tax & royalty regimes
  – Democracies
  – Set in legislative setting
Govt take includes all taxes and royalties
Govt Take: Competitive Boundary

(Excludes Alaska)

Govt take includes all taxes and royalties
Govt Take: Alaska Currently vs Competitive Boundary

Govt take includes all taxes and royalties
Allocating $28 in Net Value under Status Quo

- **State ($13)** (46%)
- **Feds ($3)** (11%)
- **Producers ($12)** (43%)
Govt Take: Alaska Currently vs "Fair Share" Initiative vs Competitive Boundary

Govt take includes all taxes and royalties

300% tax increase
Allocating $28 in Net Value under Proposed Ballot Initiative

- State ($19) (68%)
- Producers ($7) (25%)
- Feds ($2) (7%)