# CRUDE OIL EXPORTS

## HEARING

BEFORE THE

COMMITTEE ON RESOURCES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

**H.R. 70**

**A BILL TO PERMIT EXPORTS OF CERTAIN DOMESTICALLY PRODUCED CRUDE OIL, AND FOR OTHER PURPOSES**

MAY 9, 1995—WASHINGTON, DC

**Serial No. 104–12**

Printed for the use of the Committee on Resources

U.S. GOVERNMENT PRINTING OFFICE

91–746cc WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-047413-2

## COMMITTEE ON RESOURCES

DON YOUNG, Alaska, *Chairman*

JAMES V. HANSEN, Utah
JIM SAXTON, New Jersey
ELTON GALLEGLY, California
JOHN J. DUNCAN, JR., Tennessee
JOEL HEFLEY, Colorado
JOHN T. DOOLITTLE, California
WAYNE ALLARD, Colorado
WAYNE T. GILCHREST, Maryland
KEN CALVERT, California
RICHARD W. POMBO, California
PETER G. TORKILDSEN, Massachusetts
J.D. HAYWORTH, Arizona
FRANK A. CREMEANS, Ohio
BARBARA CUBIN, Wyoming
WES COOLEY, Oregon
HELEN CHENOWETH, Idaho
LINDA SMITH, Washington
GEORGE P. RADANOVICH, California
WALTER B. JONES, JR., North Carolina
WILLIAM M. (MAC) THORNBERRY, Texas
RICHARD (DOC) HASTINGS, Washington
JACK METCALF, Washington
JAMES B. LONGLEY, JR., Maine
JOHN B. SHADEGG, Arizona
JOHN E. ENSIGN, Nevada

GEORGE MILLER, California
NICK J. RAHALL II, West Virginia
BRUCE F. VENTO, Minnesota
DALE E. KILDEE, Michigan
PAT WILLIAMS, Montana
SAM GEJDENSON, Connecticut
BILL RICHARDSON, New Mexico
PETER A. DEFAZIO, Oregon
ENI F.H. FALEOMAVAEGA, American Samoa
TIM JOHNSON, South Dakota
NEIL ABERCROMBIE, Hawaii
GERRY E. STUDDS, Massachusetts
W.J. (BILLY) TAUZIN, Louisiana
SOLOMON P. ORTIZ, Texas
OWEN B. PICKETT, Virginia
FRANK PALLONE, JR., New Jersey
CALVIN M. DOOLEY, California
CARLOS A. ROMERO-BARCELÓ, Puerto Rico
MAURICE D. HINCHEY, New York
ROBERT A. UNDERWOOD, Guam
SAM FARR, California

DANIEL VAL KISH, *Chief of Staff*
DAVID DYE, *Chief Counsel*
CHRISTINE KENNEDY, *Chief Clerk/Administrator*
JOHN LAWRENCE, *Democratic Staff Director*

# CONTENTS

# CRUDE OIL EXPORTS

---

**TUESDAY, MAY 9, 1995**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON RESOURCES,
*Washington, DC.*

The committee met, pursuant to call, at 11:08 a.m. in room 1334, Longworth House Office Building, Hon. Don Young (chairman of the committee) presiding.

## STATEMENT OF HON. DON YOUNG, A U.S. REPRESENTATIVE FROM ALASKA, AND CHAIRMAN, COMMITTEE ON RESOURCES

The CHAIRMAN. The committee will come to order.

The committee today will hear testimony on H.R. 70, a bill to lift the Alaskan oil export ban. I will briefly go over the history of the ban for those who may not be familiar.

Export restrictions were first enacted during the 1973 Israeli war and the first Arab oil boycott. Following the second major oil shock in 1979 the restrictions were further tightened, effectively imposing a ban on exports. Since then much has changed. Over half of our imports now come from the western hemisphere and Europe. Canada and Mexico are among the largest suppliers.

Fortunately, we are less dependent on the Middle East and Africa than we were in the 1970's. Today U.S. oil supplies are ample and are more diversified. In short, our Nation is no longer vulnerable to the supply threats like we were in the 1970's.

While we have taken steps necessary to reduce our vulnerability to others, we have done nothing to encourage domestic energy production. In fact, production on the North Slope has now entered a period of sustained decline. In California small, independent producers have been forced to abandon wells or defer further investments. By precluding the market from operating normally, the export ban has discouraged production. H.R. 70 is intended to change that situation. H.R. 70 would require the use of U.S. flag vessels. Past legislation would have permitted exports on foreign flag vessels. Those bills never went anywhere because they would have led to the destruction of the independent U.S. flag tanker fleet that was built at considerable expense to move crude oil to market. Independent oil producers have now forged a common ground with the maritime industry.

Alaska is the only State that is subject to such a ban. The 1.6 million barrels of oil transported through the Trans-Alaska Pipeline is forced into the Lower 48 market, creating artificially low prices on the West coast. Dumping all this oil on the market has depressed the price of crude oil in California by as much as $3 a barrel, savings which refiners have unfortunately not passed on to the consumers. And let me restate that. Dumping all this oil on the market has depressed the price of crude oil in California by as much as $3 a barrel, a savings which the refineries have unfortunately not passed on to the consumers. The result has discouraged exploration development in California and Alaska.

The Department of Energy completed a study of the export ban of June 1994. DOE concluded that lifting the ban would add $180 million in tax revenue to the U.S. Treasury, create 25,000 jobs by the year 2000, protect maritime jobs, and increase the U.S. oil production by as much as 110,000 barrels a day. The DOE study has found that lifting the ban would not significantly impact gas prices in California.

The ban no longer makes sense. Rather than increasing our dependence on foreign oil, it has decreased domestic production and made us more reliant on imported oil. H.R. 70 will allow the market to determine the price and buyer of crude oil. The Trans-Alaska Pipeline will supply the West coast with crude because it is the closest market. The excess that creates a glut would be sold overseas, and the market will take over.

[The bill, H.R. 70, may be found at end of hearing.]

The CHAIRMAN. I want to thank the witnesses for being here today and look forward to hearing their testimony.

Does the ranking member, Mr. Miller, have an opening statement?

Mr. MILLER. I don't, Mr. Chairman. Thank you.

The CHAIRMAN. Does any other member have an opening statement at this time?

Mr. MILLER. I would like to submit a statement by Congressman Vento for the record.

The CHAIRMAN. Without objection, so ordered.

[The statement of Mr. Vento follows:]

STATEMENT OF HON. BRUCE F. VENTO, A U.S. REPRESENTATIVE FROM MINNESOTA

As you know, one of the most important compromises in securing congressional authorization of the construction of the Alaska Pipeline in 1973 was the promise that Alaskan oil would be used only in the United States and never be exported. The basis for that promise was that if we are going to sacrifice the Alaskan environment for oil production, all of the oil ought to be used for U.S. domestic consumption.

Even with that compromise, the Senate was deadlocked at 50-50 and then Vice President Spiro Agnew was the deciding vote in favor of authorization of the Trans-Alaska Pipeline. The sacrifice of Alaska's environment in the Arctic and Prince William Sound was not authorized by Congress just to make money for the State of Alaska and British Petroleum, but for the national security and energy independence of the people of the United States.

At that time, Senator Stevens of Alaska said that "the question should be answered by an absolute prohibition of export of North Slope oil to any foreign nation," and that, "the bill should categorically prohibit the export of North Slope oil." (CR, July 9, 1993)

That was the view then, and it should be borne in mind today.

As the sponsor of the bill to protect the Arctic National Wildlife Refuge as wilderness, I see this effort to change the law regarding the export of Alaskan oil to the Far East as yet another way to promote the oil and gas development of the Coastal Plain of the Arctic Refuge. Lifting the ban, increasing production, depleting known reserves more rapidly, improving marginal economics, responding to an Asian demand and encouraging Asian investment on the North Slope all increase the development pressure on the Arctic National Wildlife Refuge—short term gain for long term despoiling of this fragile plan. As long as the Arctic Refuge Coastal Plain is not permanently protected as wilderness, lifting the ban on the export of Alaskan oil is a high risk option for those of us committed to the long-term protection of this special place.

There are many other environmental reasons to keep the ban in place that stand on their own:

Lifting the export ban will allow oil companies to skirt the requirement in the Oil Pollution Act of 1990 of replacing older tankers with new double-hulled tankers for the Alaskan oil trade. It has been a little over six years since the *Exxon Valdez* spill, but memories are not so short that the American people will be comfortable with single-hulled foreign-built tankers sailing through the rich fisheries and rough seas of Alaska on their way to Asia. New double-hulled tankers will not be ordered for U.S. trade if there is the possibility of exporting oil on larger foreign-built vessels. If the tanker for Asian trade turn out to be "U.S. flagged" (U.S. crews), but not U.S.-built (Jones Act vessels), then it will be longer before the complete fleet is double-hulled. This will save millions for British Petroleum, but increase the risk of massive oil spills like the *Exxon Valdez*.

Because of changed tanker routes, lifting the oil ban also increases the risk of chronic or catastrophic oil spills in the rich fisheries of the Aleutian chain, Kodiak Island, the Alaska Maritime National Wildlife Refuge and the Bering Sea. The Arctic Circle is under enormous development stress. We are just now learning of the Russian spill in the Komi region where 35 million gallons of oil spilled from a pipeline near Usink—three times the amount of the *Exxon Valdez* spill.

In addition, environmental and safety problems plaguing the Trans-Alaska Pipeline are legion. More than ten-thousand safety and electrical violations on the Alaska Pipeline have been identified, many of them serious. The ballast treatment facility at Valdez is currently inadequate to handle the tankers that call on it now, and larger tankers for foreign trade would be likely if the ban is lifted. Alyeska, the consortium of oil companies running the Pipeline, is also currently petitioning for a twelve-year extension in meeting air-pollution standards at the Valdez terminal, which accounts annually for 45,000 tons of cancer-causing benzine. We shouldn't even consider an increased flow throughout the Pipeline or rewarding British Petroleum with increased marketability and profits until these questions and serious problems are addressed.

The Department of Energy made only a cursory review of some of these problems. Its two-page summary of environmental considerations involved with lifting the ban is inadequate, and unsupported by factual substantiation or analysis.

The Department of Energy's economic arguments in favor of lifting the ban are similarly unsubstantiated and rest on questionable assumptions. Lifting the oil export ban would mean additional oil imports into the U.S.—not increased California production, as the Department of Energy would have us believe. Because West Coast refineries aren't set up to refine California's heavier oil, the Alaska oil shortfall would be made up by imports from Indonesia or Saudi Arabia, meaning more and larger foreign-flagged tankers calling on West Coast ports.

This Committee and Congress in the past decades did very careful work in evaluating such proposals. In spite of Chairman Young's support, I would hope that the standard of excellence, deliberation and consideration remains the hallmark of such issues, not the rush to judgment dictated by budget considerations. A fiscal debt is bad enough. An environmental deficit is yet worse.

Only two things are absolutely certain if the ban is lifted: British Petroleum and the State of Alaska will gain new revenue and profit. But at whose expense? What will be the natural resource cost? This is a classic case of trying to fix something that simply isn't broken. The system has worked well the last twenty-two years. There is no reason good enough to break faith with the American people and to promote prosperity for a few at the expense of the many.

Many speculate a few more dollars if the oil is exported, but what of the 1970 promises and who will answer when a new energy crisis arises and our domestic energy security is pledged abroad. Will we be stumbling over one another to give short shrift to the sanctity of trade contracts?

Mr. DOOLEY. Mr. Chairman, I ask unanimous consent to submit a statement for the record also.

The CHAIRMAN. Yes, without objection, so ordered.

[The statement of Mr. Dooley follows:]

STATEMENT OF HON. CAL DOOLEY, A U.S. REPRESENTATIVE FROM CALIFORNIA

Mr. Chairman, I was pleased to join you, Mr. Thomas, other Members of the California Delegation, and the Chairman of the Ways and Means Committee on the opening day of the 104th Congress as an original cosponsor of H.R. 70. As you know, I have been a strong advocate for lifting the export restrictions on Alaskan North Slope oil since I was elected to Congress. Although the current law may have made a great deal of sense in 1973, like many other laws, it is now having the unintentioned consequences of reduced domestic oil production resulting in the loss of jobs. We therefore should repeal the ban and authorize exports of Alaskan North Slope oil carried in U.S.-flag vessels.

As Mr. Jerry Hoffman will testify on behalf of the independent producers who make up a vital element of the industry in California and also provide many well paying jobs in my Congressional District, the current export law forces oil from the number-one producing state into the number-three producing state in the country. By creating this artificial glut, the law continues to depress California heavy crude production. Though no one in 1973 would have predicted that the original export restrictions would force job losses throughout my state, today independent producers are forced to bear the pain of that unintended consequence.

Our independent oil producers state a compelling case. Like them, I was pleased that the Department of Energy similarly concluded last year that the export ban was depressing production and, if lifted, would benefit California and the nation as a whole. The Department of Energy's comprehensive June 1994 study provides a strong factual basis for the Committee to conclude that exporting Alaskan oil would be in the national interest. I look forward in particular to the testimony of Deputy Secretary White, who I believe will amplify some of his Department's findings. Among others, the following are particularly striking:

1. Production will increase by at least 100,000 barrels per day;
2. Up to 25,000 jobs will be created as a result of increased investments;
3. State and Federal revenues will increase by hundreds of millions of dollars; and
4. These benefits can be achieved with little, if any, effect on consumer prices on the West Coast.

When Congress enacted the Trans-Alaska Pipeline System (TAPS) legislation in 1973 it did not ban exports. Rather, it recognized that exports might someday be in the national interest. As the Department of Energy's study demonstrated, that day has arrived.

We now have an opportunity to spur additional energy production and create jobs. With oil imports now constituting over 50% of our domestic consumption, we must do something to increase energy production in this country. I believe the enactment of H.R. 70 will accomplish that goal.

Mr. Chairman, I look forward to working with you, as well as all the cosponsors from the Committee, to move H.R. 70 as quickly as possible.

Thank you.

The CHAIRMAN. Anyone else?

In that case, we will have the first witness, Mr. White. Being that Mr. Thomas is not here Mr. White, Deputy Secretary, Department of Energy, will be the first witness today.

Mr. White, welcome to the committee.

## STATEMENT OF WILLIAM H. WHITE, DEPUTY SECRETARY, U.S. DEPARTMENT OF ENERGY

Mr. WHITE. It is good to be here, Mr. Chairman.

I will not repeat the detailed points made in any statement which I will submit for the record.

Our support for this approach to relaxing the ban on exports in Alaska arises from several principal reasons. First, and by far and away the most important, is we have gotten to a point in the United States where we need to do what we can to increase the productive capacity of American oil wells, and to the extent that this ban has created pricing for both Alaska and California producers that is below the pricing that would occur in a free market, then there needs to be that free market price incentive in order for us to produce oil that is there in the ground that would not be produced if prices were artificially suppressed. It is as simple as that.

Right now our dependence on imports is growing every quarter practically. The growth in the imports for the world in the next 15 years is going to come from OPEC and the Persian Gulf members of OPEC in particular, and so our country needs to consider ways that we can give incentives to increase its domestic production.

A quarter of our domestic production comes from the North Slope of Alaska. That doesn't just provide jobs for Alaska and Alaskans, but it reduces the trade deficit of the United States and therefore has an impact on the overall issues of the strength of the dollar, and it provides jobs for those American companies who support the production of that oil, the service companies that are located in different parts of the United States.

The more oil that we can produce at any particular time, then the more oil that we will have available to us if there was a supply disruption because even if the oil can be exported the approach endorsed by the administration, which this bill and the Senate bill preserve, allows the President to say that the oil must stay here in case of an emergency. So if we are able to produce an additional 50,000 to 100,000 barrels of oil in California and Alaska if we increase that productive capability, that will be a capability that will be a resource for the United States in case there is a supply disruption.

There should be no impact on consumers. The gasoline market is about as competitive a market as you could imagine. Gasoline is shipped all over the United States. Actually, gasoline prices on the west coast have been higher than they are in other regions in the United States even at a time when the refiners' acquisition cost is lower.

So it makes some sense that in a competitive market where there are many different sources of supply on the west coast other than Alaska it should be no impact on consumer prices. Any firm that had access to non-Alaskan crude could try to expand their market share if people started jacking up their price of gasoline. It is that simple.

Finally, I'll note a little bit about its effect on some other industries, the shipbuilding industry and the shipping industry and the merchant marine industry, and employment in that industry. We know how important these particular cargoes are for the seafarers of the United States. They take a big chunk of their employment in trying to transport this oil. What is important for the long run health of the shipping industry and seafaring trades is that relatively more of this oil is produced than is shipped. The more oil that is produced and shipped, then the more sustainable that employment and that shipbuilding industry will be, and one way to ensure that relatively more of it is shipped is to make sure that the prices are not artificially suppressed so that the people who have in the past invested billions of dollars for enhanced recovery of this oil do so in the future and increase that investment in the future.

Thank you, Mr. Chairman.

[The statement of Mr. White may be found at end of hearing.]

The CHAIRMAN. Thank you, Mr. White.

Does the ranking member have any questions?

Mr. MILLER. Yes, I do, Mr. Chairman.

The CHAIRMAN. Then I'll ask mine.

Mr. MILLER. Mr. White, let me ask you, in terms of your studies and the changes that we have recently seen in the price of oil on the west coast and the differentials that have more or less disappeared between those crudes, how does that impact your study now?

Mr. WHITE. It really doesn't impact the conclusion that the consumers would not be hurt. That is, that simply illustrates the fact that refiners' margins can be determined by factors other than simply the acquisition cost of crude oil.

Mr. MILLER. Does it change any of our assumptions with respect to job creation? You have seen the increase in the Central Valley crude.

Mr. WHITE. I don't believe so. The only way that it—any changes in the refiners' profit margins—would change any conclusion is if it affected the economics of a particular independent refiner, and at least in the past the independent refiners have had sufficient profit margins to stay open and do very well. I have not followed on a monthly basis or quarterly basis the profits of any independent refiner, although I did see one independent refiner who I think has a representative testifying here today. Their stock is at a record high.

My point simply is, I don't think that this alone will affect the opening or closing of an independent refiner.

Mr. MILLER. What happens if you turn out to be wrong, if we do this and then there are indications that that may in fact turn out not to be true?

Mr. WHITE. As you can see from the testimony, which, as you know, we have discussed with your office, if there was a situation in which there was some anticompetitive behavior, some behavior which would force oil prices well above the world market prices of oil and try to squeeze an independent refiner out for some anticompetitive purpose, then that is something that we think there ought to be authorities that would permit the ban to go back into effect as another remedy.

Mr. MILLER. Are you comfortable that that authority is now in the legislation?

Mr. WHITE. No.

Mr. MILLER. So that is for this committee to deal with?

Mr. WHITE. Yes. We have recommended that there be some provision in here that would permit the export ban to be reinstated if there was some anticompetitive type behavior that would raise the acquisition costs well above what would occur in a competitive marketplace.

Mr. MILLER. What about making sure that those refineries that are dependent basically on this oil have access to that oil as they have historically had? I'm not talking about the price of the oil, but I'm talking about access to the volume of oil.

Mr. WHITE. We don't support the idea that a refiner should have a particular entitlement to the oil. I can see the appeal of that to an independent refiner, I'll be candid, and this country did have an entitlement system some 20 years ago that gave people rights to various categories of oil, but we don't think that there should be any entitlement to the oil as such.

Mr. MILLER. Are you suggesting that those independents can then just flip over and process the California crude?

Mr. WHITE. Or they could purchase crude at world oil prices.

Mr. MILLER. I'm not talking about pricing, I'm talking about access.

Mr. WHITE. Yes. There is nothing in this bill that would prevent a North Slope producer from selling to an independent refiner at world prices.

Mr. MILLER. I understand that. There is nothing that prevents them not selling it, too.

Mr. WHITE. Yes. In the normal market, whether it be in the Gulf of Mexico or the Pacific Northwest or the northeast part of the United States, refiners, you know, fend for themselves in the market to acquire their supply of crude oil.

Mr. MILLER. One of the things we have learned about the oil market is the words "normal market" don't usually go together in describing it. We have had all of the great predictions over the last 20 years about what was going to happen, and most of them turned out to be somewhat wrong. You have too, I think in Washington and certainly in my district, we find refiners that are fairly dependent upon this source of oil. Those refineries are operating. The question is, do they operate if they have to make substantial investment—if they lose the access to that oil, can they make that investment, and I just think there ought to be some contingencies for those events.

Mr. WHITE. Normally, whether it be an independent refiner in the Pacific Northwest or anywhere else, they ought to be able to buy and have been able to buy oil at world market prices. The oil market, as you noted, is an unusual market, and the reason why the forecasts tend to be most wrong is the fact that price increases never occur as projected.

Mr. MILLER. But that has also been based upon what has been perceived as—and I'll finish with this, Mr. Chairman—perceived as a glut, and obviously with prices hardening on the west coast some glut is disappearing because even the price of oil that is not preferable is hardening up, and in fact at some point as that disappears that market is going to change. So when you say normally in the past they have always been available, we are talking about what happens in the future when you change this set of circumstances, and I'm just asking whether or not we have walked through that kind of consideration. I'm not asking you not to do this or what-have-you, I'm asking before we make that decision, have we walked through those kinds of considerations, because often in this market looking at the past didn't tell you a hell of a lot about the future either in terms of supply or price or investment or source.

Mr. WHITE. Well, I understand your point that it will be hard to predict—and harder to predict—where the particular source of supply for an independent refiner in the northwest might be when there is no glut on ANS crude oil, and we did consider very carefully whether or not there would be any reason why an independent refiner could not buy on the world market supplies of crude oil at prevailing prices, and we concluded that there was no reason why an independent refiner could not acquire crude oil at prevailing world market prices, except the only plausible scenario would be that if there was some kind of conspiracy in restraint of trade or monopolization on the part of some of the refiners to try to drive that company out of business.

Mr. MILLER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Miller.

Mr. White, in your statement I think you have already clarified it, but could we reduce our net dependence on imports by adopting measures such as this? I know some people who have listened to this—we want to export oil, but they say if we want to export oil, we will have more dependency. What will be the result if we are given the ability to export oil?

Mr. WHITE. The net effect would be to reduce our net dependence, net being the difference between, you know, what we import and what we export, because we would be producing more oil, then the balance of payments associated with the importation of oil would go down.

The CHAIRMAN. The other question I have here is, you made mention in your statement of the maritime industry. It is my understanding that this legislation—that it will be American crewed, American-built ships, and any future ships built will be American crewed too, for this product.

Mr. WHITE. Yes, I know there would be American crewed and there would be American flagships, and I believe that it is the expectation of all involved, based on contractual arrangements, that it is going to be American built.

The CHAIRMAN. The question will come up later about repair work. Has that been considered in your report?

Mr. WHITE. Yes.

The CHAIRMAN. Because some of them fear that the work would be done overseas wherever they are exporting oil. Is there a possibility—that will be our responsibility—there would be support for any repair work to be done in American ports too?

Mr. WHITE. Well, our analysis of that is that there would be a strong economic reason why that work would stay in American ports given both the cost of transporting one of these tankers as a deadhead and given that the cost of transporting just for the purpose of repair, and also when you consider some of the tariffs that are still applicable it still makes sense to use American yards.

The CHAIRMAN. I know there will be some people opposing this legislation for that specific reason, they do not believe the repair work will be done in American yards: When they empty their oil, if there is any repair work to be done it will be done in a foreign, Korean yard or a Japanese yard, and somehow we are going to have to work around and relieve their anxiety over that because I think it should be done here.

Last year the President told us he wanted the Nation to enjoy the benefits of exporting Alaskan oil as long as potential international trade problems were addressed. Is the administration satisfied that the U.S. flag requirement in our bill does not violate international trade obligations?

Mr. WHITE. Yes.

The CHAIRMAN. And that is important because there have been some people from outside this arena that believe that this does violate it, and I'm glad to hear you say that.

Mr. Gilchrest, do you have some questions?

Mr. GILCHREST. Just a couple, Mr. Chairman. Thank you.

The $180 million in tax revenue, is that total or on an annual basis that we get from the export of North Slope oil?

Mr. WHITE. I believe that would be on a five-year basis.

Mr. GILCHREST. Five-year basis?

Mr. WHITE. Yes.

Mr. GILCHREST. We couldn't use that as observers on fishing fleet vessels for NMFS, could we?

The CHAIRMAN. If you will help me, we will do it, OK?

Mr. GILCHREST. OK. It is something to look at.

This is sort of an indirect question to this particular bill, but since you work for the Department of Energy, is there any estimate as to the amount of oil that is left in the existing wells at the North Slope, the number of years of supply there, and is there any estimate at all in any way as to the number of years left for oil reserves in the world?

Mr. WHITE. Yes. The first point I'll make concerning the North Slope, and it is a very important point concerning the North Slope.

The original estimate of the recovery of oil from the North Slope, as the chairman well knows, is about 9 billion barrels. Because of enhanced technology, they have been able to increase that to, I believe it is about 12 or 13 billion barrels.

The ability to recover that oil up there on the North Slope depends in large part on the economics of injecting various substances in order to push more of the oil that is there and make it more recoverable. They have been achieving fantastic recoveries up there, and they are estimating now—and staff can correct me—five or six billion barrels of estimated recoverable reserves left.

Mr. GILCHREST. How many years would that be?

Mr. WHITE. Right now the projections are that the economic limit is reached sometime between the year 2000, 2010. In part that depends on things like we are talking right now, what is the price of oil at the time.

Mr. GILCHREST. So looking at probably under 10 years that the North Slope, the existing wells, will be tapped? Round figures.

Mr. WHITE. That is what people in the industry say, but that is based on flat current pricing, and if prices go up that changes.

Mr. GILCHREST. So that means it could be accelerated.

Mr. WHITE. It means it could be accelerated; it also means that the field's life could be longer.

Mr. GILCHREST. This is a much more difficult question, and I'm sure there is a wide range of perspectives on this, but how much more time do people have to use oil? Is it 50 years, 100 years, could it be 200 years, and is there any plan, or at least in the beginning stages, in the Department of Energy or anywhere else to look at the point in time when we will, like it or not, have to look for alternative fuels?

Mr. WHITE. Yes, sir, that is an excellent question, and on the predictions I'll say this, that every prediction over the last 100 years about that has always said—they always say the same thing—that in 20 or 30 years we are going to be through. Actually, in World War I they thought it was more like 10 years to go with our oil production.

Mr. GILCHREST. But at the level of technology that we have today, is that a question that can be asked?

Mr. WHITE. It is, and one could probably say with confidence that there will be a point that occurs in the next 30, 40, 50 years when the world will be turning a lot more to alternative fuels for the automobile fleet, and that is what really powers demand for oil, and we will have to do that because of environmental issues, and one of the most likely alternative fuels—there are many different ones, but one is natural gas; there are also biofuels. We have a much longer supply of resource base in natural gas in the United States than we do oil.

Mr. GILCHREST. So do you envision some day natural gas being used to fuel most combustion engines as opposed to gasoline? Is there any work being done with piston technology to enable that to accommodate things like soybean oil, linseed oil, ethanol, methanol, things of that nature?

Mr. WHITE. Yes, there is. There is a lot of that work in our budget, and we have brought the cost of all sorts of biofuels down very dramatically. It is not only the engines but it is the characteristics of the combustion of those fuels, and it is also just what the efficiency of the fuel crops is. We are doing a lot of work in crops.

Mr. GILCHREST. You say you are doing a lot of work. Does that mean the Department of Energy or the Department of Energy with the private sector? Is there anybody out there doing that, other than the Government?

Mr. WHITE. Department of Energy and the private sector and a number of private sector firms. For example, I'll furnish you some information concerning a large joint venture we have with Amoco in biofuels.

[The following was submitted:]

JOINT VENTURE WITH AMOCO

Amoco Corporation is investing up to $25 million, with the Department of Energy contributing up to $4.3 million, in a cooperative research and development agreement to convert waste products into ethanol for immediate applications. Under the auspices of this agreement, Amoco is the first user of the new biomass-to-ethanol, one-ton per day process development unit, located at the National Renewable Energy Laboratory in Golden, Colorado. On a cost-shared basis, this pilot plant allows concepts to be evaluated on the economic and the technical feasibility of using the enzymatic hydrolysis conversion process to produce ethanol from various feedstocks, including agricultural wastes, municipal solid waste, and dedicated energy crops. This biofuels conversion process has been under development by DOE since the early 1980s. A recent breakthrough with a genetically engineered organism, *Zymomonas mobilis*, that converts different types of sugar substrates to ethanol, should help make this technology more economically viable. Amoco is evaluating a number of potential feedstocks, including rice straw wastes from Sacramento Valley of California.

Mr. GILCHREST. Could I ask just one more question? I'm almost out of time. The North Slope—and we begin to export, and I understand the information we have been given here this morning, the positive aspects of that—how will the oil, if it is going to be exported, will it continue to go down the pipeline? Will tankers come into the North Slope and pick it up?

Mr. WHITE. It will go down the pipeline, and in all likelihood it will either be transported to Japan or continue to be transported to the west coast, only it will not be transported to the west coast at a steep discount from world prices.

Mr. GILCHREST. I see. Thank you very much.

If we can get a few more observers on those fishing fleets.

The CHAIRMAN. You have got my attention.

Mr. GILCHREST. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Gilchrest.

Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman.

Going back to the question raised by Mr. Miller, what objective criteria should be used to determine if there is the development of an anticompetitive element on the west coast?

Mr. WHITE. I would say many of the criteria that are developed in antitrust analysis, and that could include indicators of the concentration in the market and looking at the conduct of the firms and seeing where that conduct in the patterns of pricing are predicted by normal competitive considerations or something else.

Mr. KILDEE. Should we include those criteria in the bill then, at least the outline of some criteria?

Mr. WHITE. I think when we refer to anticompetitive, now I'm stepping a little bit into the realm of a draftsman, but when we talk about anticompetitive, or something along those lines, then we have the richness of the antitrust laws that could be more or less incorporated by analysis. So much depends on the circumstances in trying to infer anticompetitive acts that in the past efforts to sort of write detailed antitrust criteria into law have been very difficult.

Mr. KILDEE. Could we refer just by reference to the antitrust laws?

Mr. WHITE. That is an idea.

Mr. KILDEE. Another question, Mr. Chairman.

You mentioned that the administration's feelings would be that there be no violation of international trade laws for American-flagged vessels. Would there be a possible violation of American requirement—requirement for American-built vessels?

Mr. WHITE. I have got to tell you, I'm not an expert in international law so I'm relying very heavily on the opinion expressed by Ambassador Kanto in his letter to Senator Johnston on this. It is my understanding that there would be much more serious international trade implications if there were an American-built requirement as such.

Mr. KILDEE. That could be appealed under GATT to the World Trade Organization then.

Mr. WHITE. I believe that is the case, but I really don't want to venture too many opinions on exactly what the legal proceeding would be. I know that there would be much greater risk.

Mr. KILDEE. But there is much less risk, and you feel little risk, if we just say American-flagged ships.

Mr. WHITE. Yes, sir.

Mr. KILDEE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Calvert of California.

Mr. CALVERT. I have no questions, Mr. Chairman.

The CHAIRMAN. Thank you.

My good friend from American Samoa, the great chief, fine leader.

Mr. FALEOMAVAEGA. Small chief, Mr. Chairman.

I have a couple of questions. I wanted to know why the Congress was so discriminating against Alaska to specifically disallow Alaska from exporting. Do I take it that the other States, exporting States, do not have this same restriction that Alaska has?

Mr. WHITE. Not like this. I think there are some permitting restrictions on oil export that are applicable to some in California, but they are not anything like this.

Mr. FALEOMAVAEGA. I'm surprised that there is such unfairness in the way we treat Alaska if that is the case.

Alaska was formerly a territory, and we do have a real sense of closeness when it comes to those issues, Mr. Chairman.

You know, the good Senator from Hawaii had proposed that the State of Hawaii establish a petroleum reserve for the obvious reason: Not only do we have a very strong national interest in our strategic and military situation in Hawaii but the fact that the oil is totally imported for the needs of Hawaii as well as other flag territories in the Pacific; and in our efforts to try to propose this idea we keep getting opposition, and I want to ask Mr. White if disallowing or allowing Alaska to do this thing will also give an opportunity for the State of Hawaii or for the Federal Government to establish a national petroleum reserve similar to what we have in California. I mean why are we not allowing this—allowing the State of Hawaii to have a similar privilege?

Mr. WHITE. Well, we, I think, had some very constructive conversations with Senator Akaka on this and did work with him on some language concerning the—a study about this. I'll tell you candidly what the concern is, and that is simply the concern of the cost of an additional storage facility. Currently our storage facilities are in salt domes on the gulf coast, and it is not the cheapest thing in the world, but it is relatively cheap to store large volumes of oil there in salt domes.

Mr. FALEOMAVAEGA. Are you saying, Mr. White, that the cost factors in the state of a national emergency—that if we don't have in the State of Hawaii to respond in terms of our strategic and military interests, for that reason alone we cannot establish a reserve petroleum facility in that State?

Mr. WHITE. No. I think if it were cost alone I share your views, but then you would have to say OK, does the President have the authorities or do we have the authorities to shift oil within the United States if there was an emergency, and that is something that obviously we think needs to be addressed.

The question I was talking about is just the storage. I mean as it is right now, Hawaii does not refine the oil that is stored in Hawaii. Some of it comes from Indonesia, it comes from the United States, it can come from other places, and our principal concern would be that the people of the United States have enough oil, and then allocating within the United States, we ought to do that on a fair basis.

Mr. FALEOMAVAEGA. I understand that was the initial concern why we made that restriction to the State of Alaska. Do you think it is possible that the State of Alaska can export some of this oil to Hawaii to establish this reserved petroleum facility if we have the capacity to meet our domestic needs?

Mr. WHITE. I think yes—well, not as a condition, but I'll tell you what we have been talking to Senator Akaka about.

Mr. FALEOMAVAEGA. My good friend from Hawaii is right here. I know he is very familiar with the case.

Mr. ABERCROMBIE. Mr. Chairman, he is getting the right hook. The left one is coming up.

Mr. WHITE. We want to make sure that Hawaii has access to the oil from the strategic petroleum reserves in the case there would be some actual physical shortage at a given price, and that is a way that we want to work with you and others to address that, to ensure that.

Mr. FALEOMAVAEGA. I have got a problem with this, Mr. White, because my understanding is that the only refinery facility or company that now operates out of the State of Hawaii is owned by a foreign company.

Mr. WHITE. BHP.

Mr. FALEOMAVAEGA. That is right, and the current ownership, we have no domestic or American oil refinery presence in the State of Hawaii. Is that an added complication to the problem, or do we have other competing oil interests that do not want the State of Hawaii to have a reserve petroleum facility?

Mr. WHITE. I believe that Chevron also has oil refining capacity there, and I'll furnish you with our exact information, and I can assure you that the only consideration that we are looking at in this is just what the relative cost could be compared to the benefit of, for example, allowing the President in the case of a true emergency to suspend the relaxation of the ban on exportation of Alaskan oil.

[The following was submitted:]

REFINERIES IN HAWAII

There are two refineries operating in Hawaii. The foreign-owned one is Broken Hill Proprietary Limited (BHP) and the American oil refinery is Chevron. As of January 1, 1995, BHP has a crude oil distillation capacity of 93,500 barrels per day; Chevron, which is located in Honolulu, has a current crude oil distillation capacity of 54,000 barrels per day.

Mr. FALEOMAVAEGA. Mr. White, I just want to say that the lives of 1.2 million Americans living in that State tells me that it is in a dire state of emergency and we should hope that the administration as well as Federal Government will seriously look into this, not just look into the cost factors but the cost of lives of Americans if we do end up in the state of a national emergency and we don't have enough oil to provide for that need. I mean I'm totally at a loss on this.

Mr. Chairman, I also want to state that I want to put my name as an added cosponsor of this legislation.

The CHAIRMAN. Thank you. I appreciate that.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Cooley I think is up next.

Mr. COOLEY. Thank you, Mr. Chairman.

I would like to have one clarification on this proposed legislation. In reading through this, I see that certain countries that have bilateral agreements to ship U.S. crude subject to—to do it without

U.S. flag transportation requirements. Can you tell me, other than Israel, any other countries that have that ability under this legislation? I'm just curious how many of those countries are in the world that have a bilateral agreement with us.

Mr. WHITE. No. I know that Israel is one. I do not know that information, but I will supply it for the record.

Mr. COOLEY. Do you know if it is many or one or 30 or 40, or do you have any idea how many is involved in that?

Mr. WHITE. I believe it is a very small group of nations, and the only one that I know of is Israel, but to tell you the truth, I don't have that information right in front of me and I will supply that information to you.

Mr. COOLEY. OK. I appreciate that.

Thank you, Mr. Chairman.

[The information follows:]

BILATERAL INTERNATIONAL OIL SUPPLY AGREEMENTS

The reference to bilateral international oil supply agreements applies only to the United States-Israel oil supply agreement. Last year the parties extended this agreement for an additional ten-year term.

The CHAIRMAN. Thank you, Mr. Cooley.

The gentleman from Hawaii.

Mr. ABERCROMBIE. Mr. Chairman, just by way of brief preamble, Hawaii and Alaska and the territories outside the continental United States—the Lower 48, I guess, depending on how you look at it—have unique circumstances, and obviously we are depending on you to take that into account as we try to with Alaska, and in that respect, Mr. White, I'm a little disturbed that in all of your discussion, aside from that which my good friend from American Samoa has brought up, apparently the middle of the Pacific doesn't exist. You talk about the west coast, you talk about Alaska, you don't talk about Hawaii. You say—I think I'm quoting you directly—there should be no impact on consumers. I would like to be for this bill. I'm in favor of the merchant marine, I would like to see American shipping, I want to see American seafarers back in action, but I don't want to see Hawaii hurt in the process.

Mr. WHITE. I understand.

Mr. ABERCROMBIE. It is not fair. It is a question of fairness.

I'm told, and my information is that the prices will go up. I'm sure you are already well aware that we have the highest gasoline prices in the United States. I'm assuming you are familiar with that.

Mr. WHITE. Yes.

Mr. ABERCROMBIE. Now I find it passing strange that we would be passing legislation that would actually increase the cost of gasoline in the State of Hawaii and if that in fact is the case, and I would like to hear your comment on it, and I would also like to hear your comment on what the effect not so much of the strategic reserve might or might not be—I think that has been covered in the previous question—but what the changes are going to be just for military alone, because the refineries there are Chevron and BHP, and we have got the military presence; the forward basing in the United States is in Hawaii. So what is going to be the impact if this legislation passes as is?

Mr. WHITE. Well, we have done some analysis of what the impact would be, both what the inputs to those refineries are today and what it would be if they had no access to the Alaska North Slope oil. As you know, there are two refineries there. Most of the crude that is refined by those refineries does not come from Alaska, and they are dealing in the Pacific Rim market for crude oil.

Now the acquisition cost—if the price rises, then the acquisition cost of Alaskan North Slope oil for those refineries would increase. We have estimated that the—and I'll supply you with the source of the estimates—that before west coast prices and world prices became a little closer, as Mr. Miller had indicated, before that, we had indicated that there would be an average supply cost increase of about 2 cents per gallon into the refinery.

Mr. ABERCROMBIE. You say most of it doesn't come. That is not the information I have. If you don't consider half, most or 30 to 60 percent depending—Chevron is 30, 60 percent. BHP says 50 percent of the crude oil in the refinery comes from Alaska. The Hawaiian Electric Company is estimating up to $2 a barrel coming in. I ask you the simple question, are prices going to rise in Hawaii or not?

Mr. WHITE. We don't think that there will be any discernible price rise. That is, we think it is 2 cents per gallon going into the refinery, and that was based upon the prices last year where there were a greater differential between world prices and ANS prices, and we believe that the refinery margins should absorb most, if not all, of that.

Mr. ABERCROMBIE. You believe it should. Can you write into the legislation then or is the legislation providing in our estimation that—it says here—U.S. refineries must have continued access to adequate supplies of crude oil at prevailing market prices. So Hawaii is going to get into this prevailing market price.

Mr. WHITE. Yes.

Mr. ABERCROMBIE. And isn't one of the arguments being made that if the exporting is able to be done that prices will increase?

Mr. WHITE. The prices for the Alaskan crude oil will increase, but the prevailing market price for crude oil in the Pacific Rim would not increase, as big as this oil production is, just one element of the overall oil supply in the region coming from the Persian Gulf and Indonesia and other nations.

Mr. ABERCROMBIE. So can we be guaranteed that there is not going to be any price increase in Hawaii if this happens?

Mr. WHITE. Well, there are no guarantees except by the laws of economics, and, with respect, you make a very interesting suggestion, but I'm trying to visualize how you would do that without some form of price controls, which have proved to be a failure in the past.

The CHAIRMAN. The gentleman's time has expired.

The good lady from Washington, Mrs. Smith.

Mrs. SMITH. Thank you, Mr. Chairman.

I was just trying to go quickly through your testimony, but I don't see anything on the economic impacts on shipbuilding in the Northwest or that industry at all although you address several other economic impacts. Can you address what you think will happen? You do say you are going to increase jobs overall. Have you shown the net decrease on other things that aren't shown here to the Northwest?

Mr. WHITE. Yes, we had an estimate of about 140 shipbuilding jobs being lost. I will say, however, that estimate was done before there were contractual arrangements reached with various of the shippers and shipbuilders. So there has been an analysis. There should not be, if these contractual arrangements that I understand have been made are in effect—and I've seen the paper—any net impact on the shipbuilding business.

Now we have also analyzed this question of ship repairs, and right now, at least when you compare the relative transportation cost which favors the shipyards in the Pacific Northwest, and compare that to the labor cost which would favor more the Asian shipyards, it looks like the ship repair costs are still well within—you know, that repairs ought to be done in the United States, and remember that we are only talking about a very small, relatively small, fraction of that oil from Alaska that is in the surplus category. That is, last year there was only a couple of hundred thousand barrels of the Alaskan oil that was really surplus to the market, and that amount is projected to decrease in the future.

So when you compare where we are now versus where we would be in this bill, it is not likely that it would be some major driver of either shipbuilding or repair in the Pacific Northwest.

Mrs. SMITH. So your assumption is that the competitiveness of the base costs will still be there because there will be other shifts.

In reference to the contracts, is that in writing? You were talking about other contractual agreements.

Mr. WHITE. I believe that, yes.

Mrs. SMITH. And how would we go about getting that as a committee?

Mr. WHITE. I would say that you would have to deal with the companies that were involved. Principally it is British Petroleum, and I have forgotten what the names of the shipyards are, but we could furnish you with that information.

Mrs. SMITH. That would be helpful. Thank you.

Mr. WHITE. Thank you.

[The information follows:]

CONTRACTS AT BRITISH PETROLEUM

Our contracts at British Petroleum indicate that these contracts, if they exist, would be treated as propriety and not publicly releasable. British Petroleum, in a recent letter to Congress, did submit to employing U.S. shipyards to satisfy any future construction needs associated with the ANS oil trade.

Mrs. CUBIN [presiding] Do you have anything further, Representative Smith?

Mrs. SMITH. No, I don't. Thank you.

Mrs. CUBIN. Representative Tauzin.

Mr. TAUZIN. I thank the chair. I want to compliment the chair on its latest appearance. It is much more favorable than the last.

Mrs. CUBIN. Well, thank you very much.

Mr. TAUZIN. Let me, Mr. White, ask you, this is a relatively new position, the administration's support of the lifting of the ban, is it not?

Mr. WHITE. Well, we have been in support of the principle since at least last summer with the qualifications that we needed to make sure that the international trade implications are lifted, but this is a big change from what administrations have said in the past, no question about that.

Mr. TAUZIN. As I understand it, part of the reason why you have taken this new position from the past administration is based upon the triple benefit package of additional revenues both to the State and Federal Government, additional oil production likely in the United States as a result of this change, and additional oil production-related employment in the country as a result of the change.

Mr. WHITE. Exactly.

Mr. TAUZIN. All positive net benefits for the country, as opposed to the old policy which would have not yielded any of those three positive effects. Is that right?

Mr. WHITE. Exactly.

Mr. TAUZIN. You also indicate that there would not be, in your opinion, according to your views, several negative effects that you were concerned about. One was the effect on refining employment, and you indicate that really is a factor more determined by consumption than it is by the nature of the location of production.

Mr. WHITE. That is true.

Mr. TAUZIN. And you also indicate that it would not have, in your opinion, although you are going to call for an environmental assessment, any negative impacts for the environment. In fact, in your statement you say that any activity or increased California production would be strictly regulated under existing regulatory regimes so that there should be no negative impacts.

Mr. WHITE. Exactly.

Mr. TAUZIN. Which leads me to my next question. Then you say the legislation should not be linked to any change in the status of the Arctic National Wildlife Refuge. The administration maintains its opposition to exploration or development of any oil resources under the coastal plan of the Arctic National Wildlife.

Could not everything I have just said also apply to production in the Arctic, ANWR, and also to production in offshore California areas that are currently off limits because of the moratorium? Would you not get all three positive benefits? Would not they be limited strictly by existing regulatory regimes, and would they not all help the country by adding more productive capacity to a nation that is still at risk and probably more at risk today than we have ever been to foreign imports? Why wouldn't you consider at least changing administration policy in those areas as you have in this area?

Mr. WHITE. Because there is a difference in the quality of the potential environmental risk here. In the case of—I'll put it as straight as I can——

Mr. TAUZIN. You saying we don't have enough environmental regulatory authority in the country relative to the production of oil in this country, that you wouldn't trust our authorities today in the ANWR or any other place in America?

Mr. WHITE. The record of being able to go into wilderness areas and to do so without a lasting impact on those wilderness areas has not been as good in this industry as it should be, and I'm somebody who—let's take a look at the Exxon problem. In the case of this bill, Congressman——

Mr. TAUZIN. Mr. White, are you talking about Valdez?

Mr. WHITE. Yes.

Mr. TAUZIN. The *Exxon Valdez*?

Mr. WHITE. Yes.

Mr. TAUZIN. We are talking about a bill that is going to allow more exports. I assume they are going to be in tankers.

Mr. WHITE. Yes.

Mr. TAUZIN. And you are using the *Exxon Valdez* as an example of why you wouldn't want production in America instead of tanker shipments to and from America. Isn't that—excuse my—I'm not going to use that term, but isn't that a little backwards?

Mr. WHITE. No, I don't think so. You ask me why, given all the existing laws that we have, given the existing laws, why don't we have more certainty that we will avoid environmental risk, and I'm just telling you that there have been environmental risks and hazards in the past despite the fact that we had laws.

Mr. TAUZIN. But, Mr. White, I don't have a lot of time; let me just make my quick point; and I realize that I'm butting a stone wall, but if you can see in this instance that this change in policy is going to increase California production but you are not worried about the environmental impacts because, to quote your language, they would be strictly regulated under the existing regulatory regime, my only question is, how can you use the excuse of environmental concerns not to open up areas of offshore California that are currently closed and everybody knows are being closed for political reasons, not environmental reasons. We have had discussions with representatives of former administrations who have conceded that, at the very table you are sitting at. Why wouldn't we open up those areas, for the very good reasons that you make, for making this change in Federal policy, which I support?

Mr. WHITE. Well, I was trying to answer that by saying that in this case, in a straightforward manner, this is actually going to decrease the tanker traffic because the export routes will be shorter, so there is no reason at all why this would do anything but better the environment. In the case of Santa Barbara or some other areas, the public in those areas remembers that there have been problems in the past, and the shoreside public has an important role in these decisions in the United States.

Mr. TAUZIN. My time is up. I think you understand my drift. I would love to see a revisit of some other policy.

The CHAIRMAN. Thank you, Mr. White.

Mr. Thomas, would you like to testify at this time? Mr. White has been answering questions. We would be glad to have you go down to the chair.

And while he is doing that, Mr. White, if you would like to go get a drink of water or do something else, you can do that and then get back here so we can finish the questions. All right?

Mr. WHITE. Good. Thank you.

Mr. THOMAS. Mr. Chairman, I would like to give Mr. White all the time he needs.

The CHAIRMAN. Well, we understand that, but he has been doing well. I'm just saying, if you wish to do so, it would be your time to do it now.

Mr. TAUZIN. Can we take a vote?

The CHAIRMAN. That is true. Shall we take a vote if we want to hear Mr. Thomas? And then you are up next.

Mr. Thomas—the honorable.

## STATEMENT OF HON. WILLIAM M. THOMAS, A U.S. REPRESENTATIVE FROM CALIFORNIA

Mr. THOMAS. Did I win?

Mr. Chairman, I have a written statement. I would ask that it be submitted for the record.

The CHAIRMAN. Without objection.

Mr. THOMAS. And I apologize for not being here at the beginning of these hearings. They are extremely important to me and to my district. But there was a task force on a contested election that required my presence. That is now over, and I'm pleased, Mr. Chairman, that you are holding hearings on H.R. 70, a bill that now has more than 70 cosponsors.

You may want to know that when I first introduced it there was one sponsor and we have now extended the list of sponsors to a bipartisan structure, including the former chairman of the Merchant Marine Committee, and we now have the administration in support of the idea, which was always of interest to me, and that was the legislation, if you will allow me to put it, required the largest oil-producing State in the Union to require movement to, in essence, the third largest oil-producing State in the Union. The statute never said that it had to go to the Lower 48, but obviously once the Government dictated that, economics indicated that it went to the State of Washington, the State of Oregon, or the State of California. Given the population and the oil demands, more than 800,000 barrels a day come to California by Government fiat.

Incidentally, by the same Government fiat Elk Hills, one of the largest oil-producing regions in the United States, and a Government-owned facility since 1974, has been producing at a Government-required maximum efficient rate. It means that this large oil-producing area, Kern County, in my district and Mr. Dooley's district, is not able to produce as much oil as it otherwise could. Kern County, if it were a State, would be behind only Alaska, Texas, and Louisiana in oil production, that single county, but because of the required Federal Government edict of Alaskan oil coming to the Lower 48 and, as I said, principally in California, you have a depressed market.

Our goal is not to require that oil to go somewhere else, it is to remove the Government edict, as you well know, Mr. Chairman, and let the oil find its economic home. If that were to occur, the assumption is, some of the oil would go someplace else. It would relieve the environmental concerns along the coast. It would, in actuality, enhance national security by increasing production of oil in oil fields by people who want to produce oil and whose communities support them in the production of oil. That is not always the case in a number of areas around the country. In addition to that, CBO has indicated that it will produce additional revenue to this country.

So when you begin looking at arguments that have been presented about a broad coalition in opposition to this, any real factual examination indicates that the broad coalition is for change and that all of the positives support the change.

One caveat, Mr. Chairman. Armed Services Committee is currently looking at marking up legislation which would put on the market the sale of Elk Hills. If in fact this legislation does not proceed to the sale of Elk Hills, yet another irony would occur. That is, it is clear, according to CBO and others, that if the Alaskan North Slope oil were allowed to find its economic home, the value of oil in California would appreciate, including the oil in the ground. The benefit of that appreciated value of oil should go to the taxpayers when we sell Elk Hills. So we have got to move the Alaskan North Slope legislation before we privatize Elk Hills.

If we were to do what Government often does and sell Elk Hills before we open up the Alaskan North Slope oil to allow it to find its economic home, then those private folks who purchased it will gain the benefit of the increased value of the oil, and that just doesn't make sense. So there may be arguments made to slow down the process of moving H.R. 70 forward. I think you will find the administration and all of the cosponsors, you and I clearly, would urge that we move with as much speed as possible in getting the ANS legislation in front of the sale of Elk Hills. It doesn't make sense not to do it, and I would urge this committee to move forward on this legislation.

Mr. Chairman, I want to thank you very much for the hearing.

[The statement of Mr. Thomas may be found at end of hearing.]

The CHAIRMAN. I thank you, Mr. Thomas.

Does anyone have any question for our good colleague?

Mr. Hawaii.

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman.

Mr. Thomas, before you came I indicated that I would like very much to be able to accommodate this legislation and be favorable toward it for reasons having to do with, among other things, the merchant marine and increasing our ability to put people to work, shipbuilding and all the rest.

On the other hand, I'm a little worried that in the context that has been established before you arrived, that Hawaii is going to be left out of the equation. When you say finding its home, right now a good portion of that Alaska oil finds its home in Hawaii, we import everything, and have had represented to me that there is excess oil, and I think, if I understood your testimony correctly, you are indicating the same thing, that in fact there is more oil that could be sold in more markets than is allowed right now. Is that a fair summary?

The reason I'm asking that question, by the way, is that if that is the case then I have obviously no objection to excess oil being sold anywhere it can to accrue profit and good jobs for people, but if in the process Hawaii, which already finds itself paying the highest prices in the country for gasoline post refining, has to have its prices increased, I'm sure you can well imagine why I would have some reservations.

Mr. THOMAS. Neil, I would tell you that some of the studies indicate that there would be a very slight marginal increase in the cost of gasoline, but it would be very, very small. It is partly a chicken and egg, and that is, we have enormous resources in Kern County, but if you have 100,000 barrels of oil a day by edict coming in, people are not willing to open up resources, and in fact wells are being shut down that still have marginal productivity capability. I believe there would be a clear net plus in oil production in the United States were we to redirect it.

The idea that there would be a massive and immediate shifting of markets for this oil I believe is not true either. I believe that the vast bulk of the oil for the foreseeable future will continue to travel the route that it now travels, that this market will develop over time. It is just that when you have people in the chain of production and refining and marketing, a segment of them know that oil will be available by Government edict, that you don't get the economics of the marketplace working.

I would not worry at all about a significant increase in the price of oil in Hawaii. What I would like to think is that, because we allow it to find its economic home, that not only from the Lower 48, California included, but from Alaska, Hawaii has a much longer guaranteed provision of oil than would otherwise be the case.

Mr. ABERCROMBIE. Then on the surface—and this will be all I have to say on it, Mr. Chairman—on the surface, one would think that inasmuch as there is obviously a market in Hawaii because we have to import all the oil—you can't get much more of a market than that, it is an absolute market—that there would be an increase in production, that prices would come down. I mean ordinarily that is what one would think, but the fear is that—and in fact the statement of the Department of Energy appears to be that if the world market comes—or if the oil from Alaska enters into a wider market, a broader market, that that will increase prices. I don't mind that at all, I just don't want to see it increase for us in the sense that all of a sudden we have to start competing against Japan or something. There is no way the State of Hawaii can compete there. That way, market forces become a euphemism for being crushed by the ability of somebody to command a higher price at our expense.

Mr. THOMAS. Let me add one final equation because it is also a Government policy that has been reversed by administrative decision. Interestingly enough, while requiring all of this oil to come to the Lower 48, there was an inability of our folk to export oil, and we got a clearance from the Bush administration for 25,000 barrel. So once again, if we can get Government out of the marketplace, there will be this movement of oil. It is entirely possible that the price will go up or go down, that is the marketplace.

I think the fundamental concern would be a longer guarantee of U.S. produced oil as the ultimate winner, and, as you clearly indicated, with the way in which H.R. 70 is written, we do make, I think, a very strong statement in terms of our merchant marine, indicating that there is going to be a greater opportunity not only for employment but a greater employment for a longer period of time.

Mr. ABERCROMBIE. Thank you very much.

Mr. Chairman, just by way of conclusion then, I won't belabor the point, but I hope that as the legislation develops a sensitivity will remain, which I know already exists on your part, toward the issue here and see if we can't accommodate that while we get to the bigger issue as well.

The CHAIRMAN. Well, we will be working with the gentleman, and hopefully everything will be copacetic when we finally move the bill.

Thank you, Mr. Thomas.

The CHAIRMAN. Mr. White, now you can sit down, and I would like to recognize the gentleman, Mr. DeFazio. You got overlooked a while ago, and the gentlelady does apologize; she didn't know of the previous agreement. So go ahead.

Mr. DEFAZIO. Thank you, Mr. Chairman. I appreciate it. I'll still make it—get to my next appointment.

Mr. White, I would like to ask, the assumptions used by—particularly the economic assumptions, the price assumptions used by DOE, when were they arrived at?

Mr. WHITE. The analysis was done basically in the early part of last year.

Mr. DEFAZIO. OK, the early part of last year.

Mr. WHITE. Yes, it was done in 1994.

Mr. DEFAZIO. I mean this is 1995, so that would have been 1994.

Mr. WHITE. 1994, exactly.

Mr. DEFAZIO. OK. Have conditions changed since then?

Mr. WHITE. Not in a way that would change our basic conclusions.

Mr. DEFAZIO. Well, I guess I disagree with that. It seems that the benchmark price has somewhat equalized. We have seemed to have moved away from the surplus, so I would question the assumptions, but we will leave that aside for a moment.

The other question relating to your analysis is this one that takes just sort of a beneficent view of the refinery industry. What do you base that on? Do you base that on some testimony? Documented letters? Conversations with the executives? The fact that they are already charging us a premium in Oregon and California and Washington, that they will eat the additional cost and lower the premium, they won't just add it in and jack us up—I mean how do we get to that point? I have never seen this as a particularly beneficent sort of industry since they have been gouging us for years on the west coast. Why are they going to stop gouging us?

Mr. WHITE. Well, you are right that the margins on the west coast historically have been higher than they are in other places in the country.

Mr. DEFAZIO. Right, but you are assuming that they will stop gouging us and they will eat the increased costs. What do you base that on? Just sort of a change of heart?

Mr. WHITE. No. I'll tell you exactly. Based on the economic interests of those refiners. Most of the supply comes from the pipelines through Canada. Most of the people that have access are either integrated refiners such as Arco and Exxon, which take their crudes from the Alaskan North Slope and will not be exporting, or have other sources of supply, and if you have, say, an Arco gas station across the street from another gas station and the other gas station tries to jack up its prices, then, you know, the customer will go to the Arco gas station.

Mr. DEFAZIO. Well, the problem is—and I know the Secretary has been in this part of the country and appreciate his attention to some of our other concerns, but in my State we don't have much competition any more. You know, Mobil sold out to BP, and then BP sold out to someone else and took over and closed a bunch of stations, and that has been going on all around our region. Since we have more intensively gone after underground storage tanks than other areas, we have had a phenomenal number of gas station closures. The independents have been squeezed down to virtually nothing. There is very little competition. So I doubt that this beneficent view is going to come to pass.

So what I would like to ask is, would the administration support amendments or codicils or whatever on this bill that would say, if our predictions are wrong, if in fact price gouging continues in the western part of the United States or increases and you are off with your projections here, would you allow some sort of safety valve if untoward effects happen, that there would be a point at which the Secretary would have the discretion to restrict exports or reconsider this because of detrimental economic impacts?

Mr. WHITE. In general terms yes, and I think you see that in my testimony, and I think one way to get at it is just the way you are talking about, focusing on whether or not there is anticompetitive conduct going on.

Mr. DEFAZIO. Well, I have been asking for years the Justice Department to do—I think there is anticompetitive now, and I don't see how it is going to get better with this export of the oil.

Mr. WHITE. And on that, I think that something that says that if there is anticompetitive conduct that is linked to these refiners, then there is indeed the ability to go back and remove—and reinstate the ban. That is an idea that we will support, and you will find it in my testimony.

Mr. DEFAZIO. OK. Then I will look forward to working with the administration and the chairman on something that will protect the consumers.

Thank you.

The CHAIRMAN. Thank you.

The cochairman—or Mr. Longley.

Mr. LONGLEY. Thank you, Mr. Chairman.

I have got concerns in three areas, and one or two of them have been touched on. First is the impact on maritime issues; second, the environmental concerns; and third, the impact on world oil supply, particularly our dependence on foreign oil.

I have listened to the testimony on the maritime issues, and that seems to make some sense. Could you just touch for a second on the environmental procedures. I think you mentioned that there were no concerns from the standpoint of the administration.

Mr. WHITE. Well, I would say this, that there are two points on environment. In the course of trying to figure whether this was a good idea, we attempted to identify if there were concrete environmental problems that people had, and generally there were two of them. One was that there are people who were concerned about what the tanker routing would be, and there were people who would be concerned that somehow the double hull requirements of OPA 90 would not apply and so that you would have more unsafe tankers, and we satisfied ourselves that that didn't look like there was a serious problem in either of those regards because, first, on the first thing, the shipper intends to go way outside the islands and be some 200 miles outside, off the coast, and the tanker routes would have to be approved by the Coast Guard, and it would be a criminal act if they didn't follow them; and on the double hull requirement there is nothing that would relax that requirement or waive that requirement as a result of this legislation.

Now we do think that to satisfy everybody concerned, you know, so that the public can go through the same process that we have gone through, we think it is a good idea to do some kind of expedited assessment. That doesn't need to be necessarily a full blown environmental impact statement unless there was some environmental threat, but as you will see in my testimony, we do think there ought to be some procedure for going through an environmental assessment, and I'm told that that could be done in a matter of months once the legislation passes.

So those are the two points that I would make in that regard.

Mr. LONGLEY. The third piece is, what percent of our oil comes from the Middle East—from other sources? Could you give me a breakdown of how much of our oil is supplied domestically, how much comes from overseas, and where.

Mr. WHITE. Yes. Right now the United States consumes something right around 17 million barrels a day; 1.6, 1.7 million barrels more or less supplied from Alaska is about a quarter of our domestic supply. The net imports to the United States right now are, for the last year, were about 45 percent—the net imports; that is, imports minus exports; and, finally—and this is a very important point that I think your question highlights—the amount of oil imported into the United States from the Persian Gulf went up from less than half a million barrels a day in 1986, to about 2.2 million barrels a day, from Persian Gulf oil in 1990, and now it is down to about 2 million barrels a day.

But unless our country takes some actions that would increase its productive capability of oil or unless the price of oil goes up, frankly, to allow it to be produced more economically here, we do face a specter of having more imports from the Persian Gulf, and we think that of course the amount that we are going to get of domestic drilling activity is principally going to be driven by the price of oil. When you take all the rhetoric away, that is what determines it, and right now we are at oil prices which, adjusted for inflation, are about where we were in 1973 before the embargo.

Mr. LONGLEY. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Dooley, waiting patiently.

Mr. DOOLEY. Thank you, Mr. Chairman, and I just want to add a little bit to Congressman Thomas' comment. Not only does the bill have the administration's support and bipartisan support of Members of the House, but it also has the support of Governor Wilson and Democratic Speaker of the Assembly Willie Brown.

I guess there has been a lot of reference given to some of the anticompetitive potential if you allow for the export. I guess I have some trouble with that, because I think precisely what is motivating this legislation is that we have created in fact an artificial barrier to competition now, and it was basically your analysis that came to the conclusion, because of the mandates to domestically consume and utilize all the Alaska North Slope oil, that it was creating such distortions and resulting in inefficiencies.

I guess some of these have gone as far as what we are hearing from people in my area, in the Kern County area, that you are actually having oil that would not otherwise be shipped even through the Trans-Panama Canal from the west coast actually being refined in the gulf region, which probably wouldn't take place under normal market conditions. Is that correct?

Mr. WHITE. That is absolutely correct, and although the gentleman from Hawaii has left, our calculations are, what the excess is—in 1994 we calculated the excess to be about 255,000 barrels, and of that amount 95,000 of that was going to the Virgin Islands, and that was oil for which there simply wasn't sufficient demand on the west coast, and yet there is this market distortion that is out there. That is why the Alaska and California producers are getting less than they otherwise would.

Mr. DOOLEY. So it should allay some of the fears of the gentleman from Hawaii that if we know that currently, under current market conditions, that we are shipping 95,000 barrels through the Trans-Panama Canal into the Virgin Islands, obviously it is going to be much less cost in terms of transportation to ship that into Hawaii if we had that capability.

Mr. WHITE. I would think so.

Mr. DOOLEY. So in terms of potential for upside, an increase of prices in Hawaii would most likely be unlikely if we did allow for the export.

One other issue is, there has been some contention that the Department of Energy analysis, as it relates to the potential for increasing employment as well, which would be the result of the increased price in some of the heavy crude produced in California, is inaccurate and cannot be substantiated. The argument is that the heavy crude in the Central Valley of California will not track the price of Alaskan North Slope but, rather, will be based on other similar products. I would just wonder, the Department of Energy didn't come to that conclusion, obviously felt that there would be some increase in price. How do you respond to that question or charge?

Mr. WHITE. Well, first I have tremendous confidence in our analysts who looked at the cost structures, who looked at the markets, who have spent a lot of time on this; and, second, to be quite candid, there is nobody who knows their costs and markets the way that producers do, and the California producers have been analyzing this for a long time, and they know what the effect of, you know, what the effect on them is, and they agree with our analysis. So some California producer has a better idea of what affects his own economics than some Washington consultant.

Mr. DOOLEY. Thank you, Mr. Chairman.

The CHAIRMAN. The gentlelady from Wyoming.

Mrs. CUBIN. Thank you, Mr. Chairman.

I just want to make a statement that I'm in complete agreement with this legislation, and it sort of defies logic to me to be in opposition to it in view of the state that the oil industry is in and the cutback that there has been in the past many years.

I, too, would like to address the anticompetitive aspect that was discussed earlier and particularly into gouging of gasoline prices in California. It seems to me that rather than putting that blame on the big oil industry, and, right or wrong, I'm not making a judgment, but most of the independents where I live anyway have gone out of business due to the regulations of the underground storage problems and due to environmental problems that they inherited, and their going out of business didn't really have anything to do with price fixing or gouging by the major oil companies. I think that was a distortion, or at least a lot of information had been left out.

Again, I think it is important for our national security that we do this. I think we need to work harder to make it easier in an environmentally safe fashion to explore and produce in the United States, and I frankly would like to see us become energy independent at some point, and of course oil and gas has to be a large part of that independence.

That is the only thing I had to say. Thank you for being here.

Thank you, Mr. Chairman.

Mr. WHITE. Thank you.

The CHAIRMAN. I thank the gentlelady.

The gentleman from the great State of Puerto Rico.

Mr. ROMERO-BARCELÓ. Thank you, Mr. Chairman. I wish your statement were true.

The CHAIRMAN. We are working on that.

Mr. ROMERO-BARCELÓ. I just wanted to preface that I favor this legislation. Unfortunately, I will only be able to vote for it in committee, I won't be able to vote for it after the process of the committee, so I hope it will be soon.

The CHAIRMAN. We welcome your vote in committee though.

Mr. ROMERO-BARCELÓ. Thank you, Mr. Chairman.

I wanted to ask a couple of questions to get things clear in my mind. You said the net imports of the crude oil were 45 percent of the total consumption. What percentage of the total consumption are the imports?

Mr. WHITE. They are about 50 percent.

Mr. ROMERO-BARCELÓ. About 50 percent of the total consumption of crude is from foreign imports.

Mr. WHITE. Yes.

Mr. ROMERO-BARCELÓ. Now how much do we pay for that a year? What is the cost?

Mr. WHITE. Well, it depends on what the prices are, but in the general range, if you want a ball park, depending on what the prices were last year, $50 billion.

Mr. ROMERO-BARCELÓ. Fifty billion.

Mr. WHITE. A lot.

Mr. ROMERO-BARCELÓ. So what I fail to understand is, when I took economics in school it always showed to me that the law of supply and demand prevails, and if the demand is reduced, therefore the prices should go down. Now here we are talking about increasing the production and yet we have the possibility of a higher price. Why is that?

Mr. WHITE. The price, the higher price, will be the price that is realized by the producer in the Alaska North Slope. It won't be dramatically a higher price, it will be a modestly higher price, maybe $1, $1.50, per barrel for oil, and the reason why there will not be a decrease in the demand for that oil is that—there are two reasons. First, at the consumer level there is not going to be an increase in price, and, second, the worldwide demand for oil is growing and it is growing dramatically.

Mr. ROMERO-BARCELÓ. In other words, the foreign oil price is higher than our domestic oil price?

Mr. WHITE. In this one place. In general, the world oil price—there are transportation and quality differences, but in general we have a world oil market. There is one protected exception to that rule within the United States, because the oil produced from Alaska cannot go out into the world oil market right now.

Mr. ROMERO-BARCELÓ. That is why it keeps it a little bit lower?

Mr. WHITE. Yes, and it is a little bit lower because historically they have had more oil than the west coast of the United States could consume, so then you have got to take it around the Panama Canal or ship it across the country, and it would be much more economical for those producers, they would get a higher realized price, if they were to take some of that excess and ship it to East Asia.

Mr. ROMERO-BARCELÓ. The other thing is, upon going over your testimony, at page 4 you said that one of the requirements that must be addressed in the legislation is, require the export in U.S. flag vessels.

Mr. WHITE. Yes, sir.

Mr. ROMERO-BARCELÓ. And all U.S. oil must be exported in U.S. flag and U.S. crude vessels.

Mr. WHITE. Yes, sir.

Mr. ROMERO-BARCELÓ. On page 6 you say in the third condition there, adherence to international commitments, it says, "Of course any conditions imposed on exports must be consistent with established U.S. international trade policies. A home build requirement for ANS crude exports raises legal issues of concern vis-a-vis U.S. international trade obligations. Thus, we oppose any requirements that ANS oil exports be carried on U.S. built vessels." Now there is an inconsistency in those two statements.

Mr. WHITE. Yes, there is. One is a requirement concerning what the nationality of the crew is, and we believe it should be U.S. crewed, and then there is an issue concerning ownership, and we think they ought to be U.S. owned, and then there is the issue of whether or not they must be built in the United States, and that last one is what causes the international trade problems.

Now I believe the private entities who are likely to ship this oil do have contracts with American shipyards for their work, this is only a small portion of the oil from the Alaskan North Slope, and I think that is what gives a lot of people comfort that we would not lose shipbuilding jobs.

Mr. ROMERO-BARCELÓ. I am through my time, but I understand that U.S. flag also requires U.S. built.

Mr. WHITE. No, I don't think that is correct.

Mr. ROMERO-BARCELÓ. All right. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from California.

Mr. FARR. Thank you very much, Mr. Chairman, and I apologize for being late. I hope that my questions aren't repetitious of what you have already presented.

I am a long time fan of yours, and I think you are doing a great job in the department, and I appreciate your coming here today. I wanted to just ask a couple of questions.

It appears to me that this legislation is headed in the right direction. I have a long question on the policy of banning export of oil from one State like we have from Alaska primarily because it puts the pressure on tanker traffic off the California coastline and puts pressure on not as much production in California. We have fought a long battle in California to try to protect our coastal resources, and it has been across socioeconomic lines and political lines to ban offshore oil drilling because we wanted to do onshore before offshore, and I think this bill probably gives some incentive, as you pointed out, to do some onshore production.

Mr. WHITE. Yes.

Mr. FARR. Has the department been able to estimate—and I see that you have an estimate of adding $180 million in tax revenue to the U.S. Treasury, creation of 25,000 jobs a year by the year 2000, preserving 3,300 marine jobs, and increasing American oil production as much as 110,000 barrels per day in Alaska and California. Do you have any figures as to what it might do for local economies in California, for the job market in that State, and for local tax revenues?

Mr. WHITE. Yes, we do. Those are in our study on the issue both on California revenues and jobs. I would ask if somebody could clip that and I could get the exact figure to you.

Mr. FARR. Yes, I would like to have the exact information if your department has done it, or if the California Energy Commission has done it, because the way the taxes work in California, it is not like a severance tax, it is a property tax, so counties where you have oil production could benefit, and there are a certain number of counties in California that that would affect, and I happen to have one of them, Monterey County. The southern part of Monterey County may be affected by this, and I would like to know that.

Mr. WHITE. OK, we will get you that information.

[The information follows:]

OIL PRODUCTION AND ITS EFFECT ON TAX AND JOBS

About 4.3 million barrels per year of crude oil are produced in southern Monterey County. Most of this is very heavy crude oil from the San Ardo Field. Based on the methodology on DOE's Alaskan North Slope crude oil study, we estimate that prices for the County's crude oil would rise by 70-75% of the increase seen in ANS crude oil, or by $0.84 to $1.20 per barrel.

Monterey County's revenue receipts from this price increase depends on its specific tax structure. In hearings conducted by DOE for its study, a District Supervisor for Kern County provided tax estimates that indicated a 6.4% marginal tax rate was appropriate for his County. Applying that rate to Monterey County oil production produces an incremental revenue estimate of $220,000 to $330,000 per year. This excludes the effects of any increase in oil production that might occur.

In its study, DOE did not make state-specific job estimates, much less county-specific estimates, because the employment data available at the time did not support accuracy at the regional level. A conservative estimate for Monterey County might be made by noting that it produces about 1.5% of California's production, that the predominant amount of direct and indirect employment increase would be local, and that California would see at least half the total rise in direct and indirect employment resulting from exporting ANS crude oil. The result of these assumptions is an estimate of 50-100 direct or indirect jobs for the County if ANS crude oil export ban is removed.

Mr. FARR. Let me tell you one of the spins that I'm hearing that I'm a little concerned about. As I said, the battle in California has been to prevent OCS drilling. There is a moratorium. That moratorium expires this year. The concern is that if pressure on production is increased, will it move offshore. The movement in California, I think, politically from Governor Wilson to everybody, both sides of the aisle, is that they would like to see the moratorium continue because the State of California has actually put a moratorium on coastal waters.

Mr. WHITE. Yes.

Mr. FARR. But they don't apply to Federal waters except through the OCS Management Act, the Coastal Act. Has the department taken a position on the lifting of that moratorium, and would you indeed support its continuation so that we could support onshore production before we moved into offshore?

Mr. WHITE. The Department of the Interior will speak officially for the administration on this, but let me make several observations which are consistent with, I believe, the concerns and interests that you have shared with us.

One is that we ought to do everything possible to produce from existing and mature fields before we wander into wilderness areas and start drilling for oil, and a good example of that would be the fields around Prudhoe Bay where there has been development, and this legislation does what you say it does, as I mentioned in a colloquy with Mr. Tauzin earlier who took a little different point of view and was critical of our views on California offshore.

Mr. FARR. Well, he is from Louisiana and we are from California.

Mr. WHITE. There you go.

I think you will find that the administration's view on this is going to be governed, as it should in a democracy, by the real concerns of the citizens who are in the States that would be affected by offshore drilling, and there is no reason for us to apologize about that. I think there are some citizens who have some real concerns.

Finally, I would say for those people who say that we do nothing in this administration to further drilling or production, if you look at the offshore production figures in California, the offshore production from existing fields has been increasing in this administration, and there is no reason for the Federal Government to try to impose on local citizens their preference concerning drilling.

Mr. FARR. My time has expired, Mr. Chairman. Could I make just one comment?

The CHAIRMAN. Go ahead.

Mr. FARR. Thank you.

What I see in this legislation, and I hope we can promote it, is really a win/win from an environmental standpoint. The biggest issue in California has been not only the preventing of offshore oil drilling in Northern California but the tanker safety traffic, and after the *Exxon Valdez* we enacted in California a law that is as

91-746 O - 95 - 2

stiff, if not stiffer than, the Alaskan law, and the whole dialog there was the amount of tanker traffic along the California coast.

Mr. WHITE. Exactly.

Mr. FARR. And it seems to me that this is going to diminish that tanker traffic and therefore ought to be an environmental gain for the State.

Mr. WHITE. I agree.

Mr. FARR. Thank you.

The CHAIRMAN. I thank the gentleman from California and thank you, Mr. White, for your testimony.

I'm not going to comment. Some comments were made by other people, including yourself, about other subjects, but as far as this subject, I think you do an excellent job and I do appreciate your testimony.

Mr. WHITE. Thank you.

The CHAIRMAN. The next panel that will be up is Mr. Roger Marks, Mr. Terry Turner, Mr. Jeffrey Hoffman, Ms. Linda Adamany, and Mr. Kent Jeffreys, and I hope all of you will summarize your statements, and I know most of you have been on the Hill many, many times and had this opportunity.

Unfortunately, as you can see, we have the gentleman from California and myself as the remaining listeners to your testimony, so submit your testimony for the record and summarize as close as possible, we are here to listen to what you have to say, and we will start with Mr. Roger Marks.

**STATEMENT OF ROGER MARKS, PETROLEUM ECONOMIST, STATE OF ALASKA, DEPARTMENT OF REVENUE, JUNEAU, ALASKA**

Mr. MARKS. Thank you, Mr. Chairman, members of the committee.

I am Roger Marks, petroleum economist for the State of Alaska Department of Revenue. On behalf of myself and Governor Knowles, I thank you for the opportunity to speak to you today about this issue of long-standing importance to the State of Alaska.

As an economist, I hope during my testimony to briefly describe the benefits of lifting the ban. I also hope you will come to understand that lifting the ban should neither increase the cost of oil products to the west coast consumers, imperil the profitability of those refineries, nor create west coast refiner supply disruptions.

The export ban on Alaska North Slope ANS crude oil has effectively held the west coast oil market captive for the past 18 years. It has negatively impacted the value of every barrel of oil transported through the Trans-Alaska Pipeline, undervaluing ANS production by a total of nearly $14 billion. The diminished value of our royalty oil and the loss to the State in tax revenue is felt especially now as we face the seventh consecutive year of decline in production from our North Slope fields.

The economic impact of the export ban of course goes far beyond Alaska's borders. When the value of oil in the ground is decreased, less oil is feasible to produce. Every barrel less feasible to produce must therefore be imported. In addition, the capital, equipment, and personnel invested for the Alaskan oil industry comes from all across the country. Thus, the ban continues to depress U.S. economic growth and employment. Also, we all recognize that the dollar is very weak now. Any addition to U.S. exports increases the strength of the dollar and decreases inflationary pressures in the domestic economy.

The closest geographic market destination for ANS is our own west coast. Even in natural post-export ban market conditions, most of Alaska's production will be sold there. The next closest market for ANS is the Pacific Rim. ANS is the only U.S. oil production encumbered with an outright export restriction. Because of the ban, most ANS oil not sold in Washington or California must be further transported all the way to the Gulf of Mexico. This routing more than doubles what it would cost to move the oil to Japan on American flag vessels.

As you can see, the ban drives down the value of ANS in two ways: First, because of the export ban it is necessary to transport the surplus west coast crude to the Gulf of Mexico market. Currently 15 percent of ANS production, 240,000 barrels a day, leaves the west coast. During the mid–1980's the volume was as high as one million barrels a day, 50 percent of production at that time. This adds approximately $2.50 a barrel to transportation costs, a net loss of nearly 25 percent of the well head value.

Second, because the additional transportation costs to the Gulf are so high, not all the excess west coast crude is moved to the Gulf, some of the excess remains on the west coast creating a glut on the market. Currently west coast ANS prices lag Gulf coast prices by 50 cents a barrel. During the eighties this was nearly $2 in loss per barrel. The gut of course affects not only ANS oil but California production as well. We estimate that these two effects will cost the State of Alaska $80 million in 1996. Lifting the export ban would change the west coast from a restricted market to a competitive market. It is important to note that under the free market conditions we request, just as much oil will be available to the west coast as is available now.

At this point I would like to refer you to the last page of the testimony, the map, and kind of explain what those numbers mean and how they suggest this. The numbers here are not formed in concrete, they are approximate, but the relative value pretty much stays constant over time. It costs about $1.50 to ship oil from Valdez to Los Angeles, and—anywhere between $1.20 and $1.80 really, depending on the vessel and market conditions—and it costs about $1.75 to ship it from Valdez to Japan.

The first thing to notice here is that, given that is 4,000 miles from Valdez to the west coast and 7,000 miles from Valdez to Japan, the natural market for the ANS will be the west coast; it is closer; it will cost less to ship it there.

The other thing to look at on here is that the value of crude in the markets is set by the marginal barrel which is imported. If we assumed the competitive barrel in both and the Gulf coast comes from the Mideast and, for example, if Mideast prices are $20 a barrel, it would be worth $21 on the west coast.

However, Japan is also closer to the Mideast than the west coast. It is only about 65 cents to ship from the Mideast to Japan, so as long as it costs less to ship from the Mideast to Japan than it does to ship to Los Angeles or the west coast, the value in Japan will be less than what it is on the west coast just because the cost to get the marginal barrel there will be higher. For these two reasons, the natural market for ANS, even when the ban is lifted, will still be the west coast.

Allowing ANS to rise to its natural value will actually encourage additional production from existing fields in Alaska and California. This, ironically, will have the effect of reducing our national dependence on imports. If ever there was a consumer price benefit created by the ban, it has yet to show itself.

Due to the market restriction created by the ban, crude oil prices for American west coast refiners are the lowest in the world. None of this benefit, however, has ever been passed on to the west coast consumers. Gasoline prices in California are the same or higher than they are anywhere else in the country despite the area's low crude oil prices.

Although there is an excess of crude oil on the west coast which must be shipped to other markets, light refined products, like gasoline, are actually imported to the west coast. In other words, there is a shortage of refinery capacity to satisfy west coast indigenous light product.

The price of the marginal imported gallon is the determining factor in setting the price for all the other gallons of products sold in the West coast markets. There is no reason that these import prices will change if the export ban is lifted. Because this is a free market, any attempt to increase product prices will be offset by more attractive, lower cost imports.

The demand for petroleum products will not change. Accordingly, although the prices of crude oil will rise approximately 50 cents a barrel to world levels, any reasonably efficient refinery should be able to compete with imported products that still have to incur additional transportation costs.

With this bill, the U.S. maritime crude oil trade is maintained; with this bill, production of U.S. reserves is increased because the value of the resource is allowed to rise to world market prices; and because the President retains the emergency authority to reimpose the ban, the national security is protected.

The CHAIRMAN. Mr. Marks, how much more do you have?

Mr. MARKS. Less than a minute.

The CHAIRMAN. All right.

Mr. MARKS. The export ban has burdened the State of Alaska and the North Slope producers for every single one of the 11 billion barrels produced over the last 18 years at the cost of economic growth, employment, and national security. Again, ANS is now in its seventh year of irreversible decline. In an age of increased market freedoms, it is absurd that American industry is inhibited from realizing full market value. It is the view of the Knowles administration, Mr. Chairman, that the ban on the export of Alaska oil has unnecessary, unfair, and unintended consequences. It certainly has long outlived the reasons it was put in place.

Once again, Mr. Chairman, thank you for the opportunity to speak to the committee on this bill.

[The statement of Mr. Marks may be found at end of hearing.]

The CHAIRMAN. Thank you, Mr. Marks. We will have questions later.

Mr. Turner.

**STATEMENT OF TERRY TURNER, LEGISLATIVE DIRECTOR, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA, CAMP SPRINGS, MARYLAND**

Mr. TURNER. Thank you, Mr. Chairman.

On behalf of the Seafarers International Union, I urge you to enact legislation that would permit exports of Alaskan North Slope crude oil carried on American flag tankers. This legislation, H.R. 70, will help preserve the independent tanker fleet at no cost to American taxpayers and save jobs of the merchant mariners that otherwise will be lost with declining Alaska oil production.

Mr. Chairman, prior to last year we had been strong opponents of Alaska oil export because the oil would have been carried on foreign flag vessels. Had they been authorized, those exports would have led to the destruction of our Nation's independent tanker fleet and caused a devastating loss of jobs for our members. The Nation would have suffered the loss of a militarily useful fleet essential to national defense.

Last year, however, we began to see how the law passed in 1973 was beginning to have unintended consequences. After extensive discussions with BP America and our contracted ship operators, we began to appreciate how declining North Slope production would prematurely lead to the scrapping of vessels in the Alaska oil trade.

The fleet had already begun to shrink as a result of increased movements of oil to the Gulf coast and other market factors. Clearly with the North Slope fields entering a phase of sustained decline, something had to be done to preserve the fleet and the jobs of our members.

Mr. Chairman, as you know well, our industry is in the midst of a depression. For too long an essential national resource has been threatened with extinction. Operation Desert Shield/Desert Storm showed how vital the commercial sealift is to projecting force in a hostile world and sustaining our troops in battle. Our experience in the Persian Gulf highlighted the strength of the U.S. flag commercial fleet, but it also showed its weakness, a shortage of vessels to carry out the responsibilities imposed on it during a national emergency. As important, the Nation learned we lacked the skilled crews needed to man all the ships necessary to provide sealift during the emergencies. At present much of the independent tanker fleet is in lay-up or headed for the scrap heap.

In the mid–1980's my union alone crewed 18 vessels. Unfortunately, when tankers sit idle so do our men and women. With the export of Alaska oil, however, these vessels will have employment opportunities not available today. Moreover, by improving production economics, exports will extend the life of the Trans-Alaska Pipeline and the jobs of those men and women who keep it in operation. That is why so many members of the labor movement support the proposed legislation.

Mr. Chairman, in closing, we wish to emphasize that we believe the historic purposes for preserving Alaska North Slope oil production for domestic consumption have been substantially served. After careful consideration of the present situation, we believe the conditions that precipitated the enactment of the export restrictions two decades ago have changed sufficiently that the Nation and labor in particular would be better served by a change in policy.

Mr. Chairman, we therefore implore you on behalf of our members to preserve jobs and our vital independent tanker fleet by moving H.R. 70 as quickly as possible this year. Together we can enhance our national security.

Thank you very much, Mr. Chairman.

[The statement of Mr. Sacco may be found at end of hearing.]

The CHAIRMAN. Thank you, Mr. Turner.

Mr. Hoffman.

## STATEMENT OF JERRY HOFFMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, BERRY PETROLEUM COMPANY, SACRAMENTO, CALIFORNIA

Mr. HOFFMAN. Mr. Chairman, I have already submitted written testimony so I will try to summarize this as much as I can.

I am the President and Chief Executive Officer of Berry Petroleum Company located in Taft, California. I am also the chairman of the Alaska North Slope Export Committee of the California Independent Petroleum Association, better known as CIPA, which is a 500-member nonprofit group which represents independent crude producers, natural gas producers, and other energy-related industries in California. To give you a feeling as to the size of Berry Petroleum Company, we produce about 9,000 to 10,000 barrels a day, primarily of heavy crude, which represents about 1 percent of the State's production, so I think Berry represents a relative cross section of the typical California independent producer.

As you have heard today, basically the problem is, because of the export ban, you have the number one producing State, Alaska, shipping crude oil into the number three producing State, California, thereby creating an oversupply and depressing the price of crude oil in California. Even though this country in 1994 imported over 50 percent of its crude needs, because of this law we create an oversupply of crude oil on the west coast, thereby depressing the prices of indigenous Alaska and California crude.

Because of this oversupply, this excess crude has to be shipped to other U.S. ports either through the All-American Pipeline, transshipped through the Panama Canal, or around Cape Horn, at a cost of $1.50 to $2 per barrel more than it would cost if it went to the Far East. The result is a lower crude oil net back price to Alaska and, more importantly to me, to the California producer.

There have been numerous studies addressing lifting the ban on the export of Alaska North Slope crude, one commissioned in December of 1993 by CIPA and more recently in June of 1994 by the Department of Energy. Each of these studies have concluded that lifting the ban on ANS will benefit the United States, California, and Alaska, and, more specifically, the studies found that California and Alaska crude prices would increase.

The estimates vary as to how much the prices will increase but are roughly in the neighborhood of a dollar to two dollars per barrel. There is ample proof that higher crude prices in California will result in increased production, exploration, and California jobs. For example, during the invasion of Kuwait, the California production declined, actually halted, and in four short months that halt turned into an increase in the State of about 50,000 barrels a day.

Furthermore, California has more proven, undeveloped crude reserves than any other State in the Lower 48. It is not a geological risk, an engineering or technological risk, but rather an economic risk that keeps these crude oil reserves from being developed and produced.

California heavy oil production, by its very nature, requires high operating and capital costs to extract. In California we are further burdened by higher than average regulatory costs, and, because of the oversupply of crude oil on the west coast caused by the ANS export ban, our prices are depressed and well below prices in other parts of the country. California producers are being hit from both directions.

Opponents of lifting the ban on the export of ANS crude oil claim that it would result in increased petroleum product prices. This is simply not true. Gasoline prices are not dictated by the west coast crude oil market but by the world crude oil market. Furthermore, there are no Government prohibitions on the export or import of petroleum products as there is in crude oil. Therefore, if gasoline prices were to increase abnormally in Los Angeles, for example, the world economic markets would quickly react and transport gasoline into this market to capture those abnormal profit margins and quickly drive prices back down to world market levels.

As you have heard today, there is wide bipartisan support for lifting the ban on ANS, including Governor Pete Wilson, Willie Brown, other California assembly persons and senators, and counties, including my own Kern County. It is time the United States of America developed a strong national energy policy. Lifting the ban on the ANS crude oil is the first step.

Thank you for your time today.

[The statement of Mr. Hoffman may be found at end of hearing.]

The CHAIRMAN. Thank you, Mr. Hoffman.

Ms. Adamany.

### STATEMENT OF LINDA ADAMANY, SENIOR VICE PRESIDENT, BP OIL SHIPPING COMPANY, USA, CLEVELAND, OHIO

Ms. ADAMANY. Thank you. On behalf of my company, BP, I'm pleased to appear before you today. We too have submitted written testimony, so I will try to just highlight the major points of that testimony for you.

At the outset, I want to emphasize how pleased we are that the administration supports lifting the ANS export ban carried in U.S. flagships and manned by American crews. We are committed to working with the administration to ensure that exports are authorized pursuant to appropriate licensing mechanisms and only after completion of the appropriate assessment of the environmental implications of proposed exports.

Today, based on the State of Alaska's own forecasts, the North Slope is producing some 600,000 barrels a day more than was originally projected as recently as 10 years ago. These achievements are particularly notable given the inherent competitive disadvantage that producers of the North Slope have to entertain, the disadvantages that stem primarily from harsh climatic conditions, the geographic remoteness from marketplaces, and the Federal restrictions to access world crude oil markets imposed by the ANS export ban.

BP America and our 16,000 employees are very proud to now be the largest producer of crude oil in the United States. Today the future of this critical domestic resource is in double jeopardy. Production is on decline, as you have heard, and margins that are the lifeblood of the ongoing investment decisions that get made on the North Slope are being squeezed as never before as upward pressure on North Slope costs continue to increase. This is compounded by the fact that with the current export restrictions in place we can't sell our crude oil in a competitive market.

Because ANS is surplus to west coast demand and because of the restrictions, we are forced to accept prices for crude oil that are below world market parities. In recent years we have seen our netback in Alaska squeezed to the point where making additional investments just cannot be easily justified compared to other opportunities across the world.

As the domestic maritime industry and maritime labor in particular have come to appreciate—and you have just heard their testimony—their future depends in part on our ability to extend the life of the North Slope fields. By enacting legislation to remove the current export restrictions, you can help create the market conditions that will raise the netback in Alaska and generate the incremental returns that we will ultimately need to stimulate higher production for the benefit of all Americans.

By insisting on the use of American flag ships and manned by U.S. crews, you can help preserve a domestic merchant marine that is vital to our national security. Moreover, as the Department of Energy found and independent producers have just testified, you can spur additional heavy crude oil production in the State of California without hurting the consumers at the pump.

Mr. Chairman, after looking at the export issue with fresh perspective, we and the maritime industry have concluded that we can work together to enhance our Nation's energy and the national security. We encourage Congress to do so now as well, and as partners we can spur energy production, preserve the domestic merchant marine, create jobs, and raise State and Federal revenues. We urge the committee to report out H.R. 70 as soon as possible to help us realize our shared objectives and to enhance our national security and our energy.

Thank you.

[The statement of Ms. Adamany may be found at end of hearing.]

The CHAIRMAN. Thank you, Linda.

Mr. Jeffreys.

## STATEMENT OF KENT JEFFREYS, SENIOR FELLOW, NATIONAL CENTER FOR POLICY ANALYSIS, WASHINGTON, D.C.

Mr. JEFFREYS. Thank you, Mr. Chairman.

My name is Kent Jeffreys, and I'm a senior fellow with the National Center for Policy Analysis which is based in Dallas, Texas, and I work out of the Washington office.

Over the past eight or 10 years I have worked with a number of different public policy organizations actually starting with the

House Republican Study Committee, the late lamented Republican Study Committee, on energy and environmental issues, and I can say that in all of those years there has been a unanimous opinion about this particular prohibition on the export of Alaskan oil, and it is that it should not exist and it should be repealed.

When it was passed in 1973, this export ban was justified as a means to protect American jobs and to keep our oil here at home. I think the testimony you have heard today and the history of the past 22 years has indicated that both of those assumptions were flawed and that, in fact, more jobs have been lost due to the ban and, in fact, we might have increased imports overall. This is due to the fact, as you have heard from other witnesses, that the glut of oil on the west coast actually drives down the net price received by the producers, and, in addition, the Department of Energy has estimated that in terms of jobs, repeal of this export ban would increase the jobs in the oil industry by 10,000 to 25,000 nationwide.

I'll skip through some of this because the points have been made quite thoroughly by other witnesses, but in a new study being released by the Cato Institute, Mr. Samuel A. Van Vactor out in Portland, Oregon, has estimated that if you look at the reduction in price due to the oversupply on the west coast and factor in the transportation costs and that sort of thing, it actually is more cost effective for the marginal barrel to go to Japan, so you would be likely—or at least East Asia—you would be likely to increase exports to some certain degree, which is rather important. In this time when we are pressuring Japan to accept our products, we actually have a ban on one of the products that they would like to have at least the option of buying.

In addition, Mr. Van Vactor estimates that the net return on a barrel of Alaskan oil with all of these factors considered is as much as five to eight dollars lower than world oil market averages in terms of the net return, and that is before you calculate the Federal taxes and royalty payments. Because of that, it is anticipated that many billions of barrels of potential production in the State of Alaska will remain in the ground simply because the economic climate is not sufficient to encourage the investment required to bring it out.

Now when you compare that with the current trade policies concerning East Asia, you are actually preventing the possibility of Japan or Korea investing in some of these facilities in an effort to secure an alternative source of supply for their own domestic economies. I seem to recall that in the past there actually was an opportunity for developing liquefied natural gas facilities and some other possible investments from Asian countries, and those of course will not occur if they cannot then bring some of the product back into their own countries.

I believe that if you look at the economics of the oil export ban it certainly is no longer justified; if you look at the domestic production of oil, it is no longer justified; and if you look at the fairness, the equity of it, considering that the State of Alaska, which is heavily dependent on the production of its North Slope, is bearing the major brunt of the economic and jobs impact from this ban, it certainly is unfair to Alaska.

So I would speak not merely for my own organization, the National Center for Policy Analysis, but I have done sort of an informal survey of many other organizations across the country which do economic and energy analysis, and, as I have said before, in terms of the conservative, the libertarian, and the free market oriented groups, there is a unanimous opinion that the ban on export of Alaskan oil should be ended.

I would be happy to take any questions you have. I see my time is up.

[The statement of Mr. Jeffreys may be found at end of hearing.]

The CHAIRMAN. Thank you, Mr. Jeffreys.

I have a couple of questions, if I can.

Ms. Adamany, export opponents claim that enactment of H.R. 70 will not increase production in Alaska. What are your projections? Are your projections consistent with DOE as far as production goes?

Ms. ADAMANY. Yes, directionally they are very consistent. As much as half of the production that has yet to be produced between today and the next 10 years is dependent on investments that have not yet been made, and by enhancing profitability of the Alaskan North Slope it makes it that much more competitive for our company to invest dollars in that area versus other opportunities across the world, we would become more competitive, and in that regard we would have enhanced production opportunities that, as I say, are directionally consistent with the DOE report.

The CHAIRMAN. In that report it talks about the decline, and you did also, so you are talking about additional fields being found or have been found but are not competitive at this time.

Ms. ADAMANY. We are talking mitigating decline. I would still expect decline to be taking place but not at the rate that we have been seeing over the last several years. So we are talking about production from known, existing reservoirs.

The CHAIRMAN. All right. That doesn't preclude, though, knowing the areas I know, that there are some areas that haven't been explored to an extent, but this would give an added incentive for exploration, would it not?

Ms. ADAMANY. Certainly, yes.

The CHAIRMAN. Just for the record, I'm one of the few people that were here when we passed this original Act. Some people say while it was imposed the State of Alaska bought off on it. One of my good ex-governors forgets that he signed off on this, including myself, including the Senators that were sitting at that time, because we were in an embargo stage and the market was in the United States, it wasn't any place else, and we didn't foresee the imbalance it would create, and times have changed, so I believe it is time to be changing also.

Mr. Miller, do you have some questions?

Mr. MILLER. Mr. Chairman, I have a series of questions for the witness from British Petroleum, but I think time would be better utilized if I could submit those for the record.

The CHAIRMAN. Without objection, the questions will be submitted to British Petroleum at this time.

The CHAIRMAN. Do you have any other questions?

Mr. MILLER. No, thank you.

The CHAIRMAN. Mr. Turner, the question that keeps coming to my mind—and I'm one that is deeply affiliated with your union, in the sense that I was in the maritime business—you have stated this will keep your people working, and in the bill it says American flag, American crewed. Do you think the language is strong enough to make sure that there is no way this can be overturned?

Mr. TURNER. Make sure that——

The CHAIRMAN. Or somehow circumvented?

Mr. TURNER. We are confident that the language as written in the legislation requiring U.S. flag, which means U.S. owned and U.S. crewed, will sustain itself, yes.

The CHAIRMAN. All right. And do you have a memorandum or some correspondence concerning the GATT agreement and international trade that this will meet the criteria?

Mr. TURNER. Of course we are relying on USTR, and they are submitting to the record that, given the fact that there is not a U.S. build requirement in this bill, that it would not violate GATT.

The CHAIRMAN. Of course if I had my way, I would have it U.S. built too, but I'm not going to fight that battle if I can't get the support of the administration, because I do think that is the way to go. I think it is the safest way to go, and it does employ people, and it is a better tanker. We build better tankers, contrary to what people may think. But that is a problem that I can't cross over right now.

Mr. Marks, just your comments about the State and lost revenues—I will buy that argument, I'll buy that presentation, but if this doesn't pass, what are your estimates—being that you are in that field of money—that would occur to the flow of cash to the State treasury?

Mr. MARKS. We estimated that the loss would be $80 million in 1996. Our estimate for the 1996 budget, for the State, I think is $1.6 billion. That is a 5 percent loss.

The CHAIRMAN. And that is just on the present inclined plane. If it continued, it would get much worse, much more rapidly, in a very short period of time, wouldn't it?

Mr. MARKS. That is correct. The State Government gets 85 percent of its revenue from oil. Production has declined 25 percent in the last seven years. It is a declining base, and, dollar for dollar, every decrease in the value of oil is directly passed on as a reduction in State revenue.

The CHAIRMAN. Mr. Hoffman, I didn't realize that California and Kern County was the third largest producer. That is an amazing thing.

Mr. HOFFMAN. Yes. It is behind, I'd say, Texas and Alaska.

The CHAIRMAN. Right. That is an amazing amount of oil in an area from California, because we are from the northern part of California, and we didn't have much to do with the southern part, so we didn't realize you were producing that much oil.

Does anybody else have any questions at this time?

Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman.

I should point out that Kern County is Central California and not Southern California. Sometimes we don't want to be confused there.

The CHAIRMAN. I beg your forgiveness. That was a slip of the tongue.

Mr. DOOLEY. Yes.

Ms. Adamany, I guess we have heard some concerns by some of my colleagues related to creating a situation where there is a potential for anti-competitiveness. I guess from BP's perspective you produce about 50 percent of the oil produced out of the North Slope now. If you are allowed to export it, what is your market analysis? I mean have you folks made any determinations on what potential amount of that oil that you might export?

Ms. ADAMANY. A couple of comments. We produce now about 38 percent of the total production coming off of the North Slope. At a minimum, the most obvious production that would be exported would be the barrels that are now surplus to west coast demand. You have heard other testimony to that effect. Today that number ranges between 200 and 250,000 barrels a day. In addition to that, we would like the opportunity to be able to export barrels that are currently placed on the west coast to the extent that the marketplace would dictate that the higher value for the oil could be realized somewhere else. That is not predictable, it is a function of the day-to-day marketplace.

I can tell you that in the Far East, while we have not done any sort of exhaustive market research, we didn't feel it was appropriate yet because we are not allowed to market the oil yet, our preliminary analysis looks to us like markets like Korea and Taiwan would be a primary target for us because the refining capacity in those countries is less sophisticated and are therefore unable to extract some of the high sulphur content that other crude oils have. ANS has a relatively lower sulphur content, about 1.7 percent, and so those refineries in theory should be willing to pay more for our crude oil. But given a finite demand in those two countries, then of course other areas in the Far East would be looked at as an alternative.

But beyond that, we have not done more. We have not talked to anyone, and we have not done more research.

Mr. DOOLEY. Mr. Hoffman, there is some contention made that the increased price that has been determined in a number of studies, a couple of which you cited, are inaccurate because the heavy crude that is produced in the Kern County region won't track ANS. But it is your contention that because we will have the freeing up of refinery capacity, that will then provide the opportunity, or market opportunity, for some of the heavy crude now that is being basically eliminated because of the mandate that perhaps as much as 200,000 additional barrels beyond what the market would demand is coming down from Alaska.

Mr. HOFFMAN. Yes, that is correct, and I would say also, if you look back before the price collapse back to 1986, the State produced about 1.2 million barrels, a lot more heavy, and there was no particular problem at that particular time with refining capacity to handle that.

Now there have been some closures of refineries, but there have also been some expansions during that period, so I would contend that there is room for more heavy oil.

Mr. DOOLEY. Thank you.

Mr. COOLEY [presiding] Mr. Abercrombie.

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman.

Ms. Adamany, you were here before when I was asking questions. You have hit on one of the key points for me. One of the representations made to me is that there is excess oil; that is to say—stop me if I'm wrong here—that there is more oil available that could be shipped elsewhere than could actually be consumed at the present time regardless of source, whether it is domestic, foreign, et cetera, right?

Ms. ADAMANY. Correct.

Mr. ABERCROMBIE. 250,000.

Ms. ADAMANY. Roughly, yes.

Mr. ABERCROMBIE. If that is the case, then can't there be some provision here, or can I be assured that Hawaii—that you could stop off on the way to selling this excess oil? Because one of the points made by Mr. Jeffreys had to do with the question of market, free market. Well, I have real reservations about what the word "free market" means. Obviously you can't have a better market than Hawaii. We need all the oil that comes—I mean all the oil that comes in there is refined; all of our energy virtually is dependent on it.

Now I get conflicting arguments being made as to whether or not there is going to be a significant increase or even a minor increase, because the cost to us right now is exorbitant. We call it the price of paradise. One of the things that we have to do—and this goes back to market again—is, we pay that. We don't like it, but we pay, but we sure don't want to have to pay any more in the process.

Now the low sulphur fuel that characterizes the shipments from Alaska is what we use, and our refineries are capable of using it, and we have that relationship.

So what I really need to know from you, inasmuch as it is excess then, can an arrangement be made either by way of legislation, or does the legislation, in your opinion, now, as written, in such a way as to protect the market that we have in Hawaii?

Ms. ADAMANY. I think there are really two separate questions you are asking. One is about the security of supply to the State of Hawaii.

Mr. ABERCROMBIE. That was implied, you are right.

Ms. ADAMANY. And the second part of that question was concern over the potential price increase to the consumer. Let me talk about those two things separately.

First of all, I would agree with all the comments you have heard so far from other people who have testified that while yes, we expect that the price of crude oil would increase somewhat, rather modestly in the scheme of things, that does not translate or should not translate to an increase in the product prices at the consumer level. The reason, very simply speaking, is that product prices in the State of Hawaii, for example, and certainly on the west coast, are dictated by world market economics. That is not the same case for the price of crude oil where the restricted marketplace that we are dealing with now forces our prices to be depressed relative to crude oil prices.

What I'm saying is that, quite frankly, for over 20 years the west coast refiners and the refiners in the State of Hawaii have enjoyed relatively low acquisition costs for crude oil but have not passed that along to the consumer because they are able to set their gasoline prices, for example, based on world market conditions.

So I'm in complete agreement with other testimony you have already heard that the consumers in the State should not see a significant price increase, if any at all.

Mr. ABERCROMBIE. If I can interrupt, depending then on what the refiners do, you are saying, this is not a question of supply, even the security of supply, not a question of the crude oil, it is a question of what the refiners are going to do once they acquire it.

Ms. ADAMANY. It is a question of what the refiners do, but, again, because their price is going to be dictated by alternative supplies that would compete for Hawaiian business, their ability to pass through price increases is capped by a price that the world market would see and have incentive to bring gasoline, for example, from offshore.

Mr. ABERCROMBIE. Right.

Very quickly on that, we have got to go to places like Oman or Ecuador. The logistics are horrendous. The logistics also could be interrupted by closing off the Straits of Malacca or something like that. There are all kinds of difficulties. One would presume that if we are thinking about domestic producers, Alaska, Hawaii, and there is an increase, if not an increase in production, an increase in availability, that prices would go down.

Ms. ADAMANY. Again, if we were enjoying a normal set of world supply/demand factors you would be exactly correct, but we are not.

Mr. MILLER. Would the gentleman yield?

Mr. ABERCROMBIE. Certainly. My time is up, however.

Would you grant another minute?

Mr. COOLEY. We will extend the time.

Mr. ABERCROMBIE. Thank you.

Mr. MILLER. The suggestion is, therefore people on the west coast, when the world price of oil goes up, the west coast is in a surplus market and the price of gasoline goes up on the west coast just like it does on the east coast, because it does. What really then has been going on, as your testimony, is that the refiners have been gouging the consumers on the west coast, because you are saying they cannot justify the increased price on product because they are buying at a lower price.

Ms. ADAMANY. I think the refiners on the west coast have enjoyed extremely high profit margins.

Mr. MILLER. I didn't expect you to use "gouging," but they are arguing that their margins are as low as they have ever been at the current time.

Ms. ADAMANY. They may be historically low, but relatively speaking, I would argue, they are still high compared to the rest of the United States.

Mr. MILLER. So it really isn't a world price. OK.

I just want to know why, when the price of oil is going to go up as a result of this action, gasoline prices wouldn't go up then, but they have always gone up when the price of oil has gone up because of other actions. You are saying because now the refiners are going to decide, even though their margins are at an all time low, that they are going to eat that acquisition cost.

Ms. ADAMANY. I would argue that supply/demand economics will not allow them to pass it through.

Mr. MILLER. In this captive market where they have had a captive market, right.

Mr. ABERCROMBIE. It is like sugar, Mr. Chairman. You are never going to see a lower price of sugar reflected in a candy bar.

Mr. COOLEY. Let's not get into that.

Mr. Farr.

Mr. FARR. Thank you.

I'm just curious, the panel kind of stimulated an interesting thought here, and Mr. Marks said that there was a shortage of product on the west coast.

Mr. MARKS. Yes.

Mr. FARR. Is that true also in the Gulf refineries, and what kind of paradigm shift are you going to see by suppliers then if—where will the supply come from? Will it indeed come from California by more production on the west coast, or will it come from import from Mexico and BP's consortium in Columbia? What do you see this shift in the supply side——

Mr. MARKS. I'm not sure there will be a shift in supply side.

Mr. FARR. I mean supply source.

Mr. MARKS. The source of light product?

Mr. FARR. Yes.

Mr. MARKS. I'm not sure there would be a significant shift. I think the point is that the sources that are there now will continue to be there, and since the prices to a refiner, say, in Canada or the Gulf coast, the price of their crude won't go up as a result of lifting the ban, their prices stay the same, so the price of their product that they sell on the west coast will be the same, and if there is any attempt by west coast refiners to increase prices to the consumer, there would always be a supply of lower price product from the Gulf, from Canada, from overseas, that would be more attractive, and I think that puts the ceiling—that is the natural ceiling on why product prices won't increase.

Mr. FARR. Mr. Hoffman, you have stated this will increase production in Kern County.

Mr. HOFFMAN. Yes, sir.

Mr. FARR. Have you got any estimates as to what that would be? Would it be true for Monterey County too?

Mr. HOFFMAN. Probably especially for Monterey because in southern Monterey County most of that production is very heavy and it is very price sensitive, so to the extent there is an increase in price, it is going to be very price elastic. So I would think yes, there would be some production increase in Monterey County.

Mr. FARR. Have you done any estimates as to what the revenues would be to those counties?

Mr. HOFFMAN. No, I haven't done any specifically. In Kern County we have taken a look, which I don't have right now with me, but we have taken a look at the impact that it would have on property taxes. That is pretty easy to do because we do have an ad valorem tax issue pointed out earlier. But I have not done anything on Monterey County. I think the DOE may have looked at the various counties.

Mr. FARR. Just simply, do you think that there will be more production in California because of this, or where we in California would look for other import markets?

Mr. HOFFMAN. Absolutely, I think there would be more production in California as a result of lifting the ban.

Mr. FARR. So we are not going to just shift from Alaskan tankers to South American tankers coming north.

Mr. HOFFMAN. No. I think the Alaska production will continue to come to California, but it will come at world market prices rather than a depressed price.

Mr. FARR. Does anybody on the panel disagree with that? OK.

The CHAIRMAN. Is everybody through?

Mr. ABERCROMBIE. Mr. Chairman, can I follow up on one——

The CHAIRMAN. Whatever you wish, sir, just within an amount of time though.

Mr. ABERCROMBIE. Yes. I do appreciate that because we don't necessarily have another chance, Mr. Chairman, and I appreciate your indulgence.

Ms. Adamany, I want to make sure that I understand the shipping question because I would like to say, as Mr. Young knows very well, I'm very adamant about merchant marine recovery in this country, including American-built ships, not only American sail and American flag but American built and repaired. Am I in a difficulty then, a dilemma, where my principles will crash against the reality of American-built ships or the lack of American-built ships with respect to the shipment of oil then to Hawaii?

I'm already in a difficulty because if there is increased production of oil in California it is not necessarily the kind of oil that we could use most efficaciously in Hawaii, so I can't necessarily look to the coast. I have a Jones Act situation that I have to deal with there. How would that affect it? I'm thinking about having the ship stop off. You are going to Japan, you are going to the Far East, you can stop off in Hawaii, but if it is not an American-built ship, then I've got a problem with the Jones Act, right?

Ms. ADAMANY. It is not the Jones Act so much as—let me back up and say that, first of all, over a year ago our initial position, as BP, in order to secure lifting the ANS export ban was to in fact require U.S. built, U.S. flag, and U.S. crude ships. It was subsequently that we were informed that the U.S.-built stipulation might be in violation of international trade agreements, and on that basis only we have retreated from that position being written into the legislation.

Having said that, while we don't want to appear to be in violation of international trade agreements, BP would say that we would certainly look to U.S. shipyards for new build requirements as long as the rates are competitive with other alternatives.

That does lead me to another point though. You have heard Mr. Turner testify earlier that he has got a number of ships, Jones Act ships; therefore U.S.-built ships, currently in lay-up, and should this ban get lifted——

Mr. ABERCROMBIE. We could get them out.

Ms. ADAMANY. We would envision the employment of the ships that are currently in lay-up, and so between the ships that are currently in use today along with the ships that are in lay-up, we would expect there to be an adequate supply of tonnage for the foreseeable future without actually having to commission new building.

Mr. ABERCROMBIE. OK. So might the Chairman be able to look at this legislation from the point of view, if it needs to be added, of trying to encourage the introduction of those ships into the trade, if that might be possible?

Ms. ADAMANY. Requiring that—if additional tonnage is a requirement, that existing Jones Act tonnage be used?

Mr. ABERCROMBIE. Be used first or looked to first? That wouldn't violate any agreement. Those ships are already built.

Ms. ADAMANY. While I would personally not——

Mr. ABERCROMBIE. I'm not asking you to rule on a point of law.

Ms. ADAMANY. No. I was going to say, I'm not an attorney, so I really can't give you an opinion on the legality of that.

Mr. ABERCROMBIE. From a policy point of view, would BP be willing to adopt that in order to advance this, if that was one of the policy questions?

Ms. ADAMANY. Using existing Jones Act ships?

Mr. ABERCROMBIE. Sure.

Ms. ADAMANY. Certainly.

Mr. ABERCROMBIE. Good. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. You are welcome, and the panel is dismissed, but the gentleman from Hawaii brings up some valid points. I have not analyzed this with lawyers on international trade and GATT. That is another reason I voted against GATT, by the way. And I want to compliment BP because that was their position, and I think it is the right position to have. We may want to look at this as this legislation evolves.

Mr. ABERCROMBIE. I don't think it does violate it, but I'm not a lawyer either.

Mr. MILLER. I'm a lawyer, and I don't think it violates it.

The CHAIRMAN. All right.

You are excused. Thank you for being here.

The CHAIRMAN. The next panel is Mr. Peter Sutton, Mr. Nolan Hancock, and Mr. Thomas Jones, Junior.

Gentlemen, under the same agreements you will be given, with the lights, the time, and if you have a longer written statement please submit it for the record. We look forward to your testimony.

Mr. Cooley.

Mr. COOLEY. Mr. Chairman, could we hear also from the Port of Portland?

The CHAIRMAN. He is going to answer questions?

What is your name.

Mr. DECKER. Tom Decker with the Port of Portland, Portland Shipyard, and I have been invited to join the panel just in case there were questions related to us.

The CHAIRMAN. That is fine, just for identification.

Mr. Sutton, proceed.

## STATEMENT OF PETER A. SUTTON, SENIOR VICE PRESIDENT, TOSCO REFINING COMPANY, CONCORD, CALIFORNIA

Mr. SUTTON. Thank you, Mr. Chairman.

My name is Pete Sutton, vice president of TOSCO. I would like to thank you again for inviting us to another hearing on this very important issue and especially the fact that we are opposing H.R. 70.

With me today are senior executives from other west coast independent refiners, namely Ultramar, Powerine, U.S. Oil and Refining, and Kern Oil and Refining, and the independent refining sector on the west coast produces and sells about 25 percent of all the gasoline transportation fuels in that market. Each of us has submitted a prepared statement to the committee and request that they be included in the record.

TOSCO itself is the largest independent refiner and purchaser of ANS oil. We have two refineries on the west coast, one in California and one in the Northwest in the State of Washington, and we process about 180,000 barrels a day of ANS crude and also 65,000 barrels a day of California crude.

Data from the State of Alaska shows that on the west coast we are going to be crude deficit within two to three years, and that includes the State of Hawaii when we say west coast in all my comments today.

Mr. ABERCROMBIE. Thank you.

Mr. SUTTON. Therefore, with regard to the proposed exports I would like to emphasize three points.

First of all, ANS is currently selling on the west coast at a price which is at world parity, and allowing exports would simply increase the ability of just one company, British Petroleum, to greater manage the supply and the price of ANS oil.

Second, the west coast refining industry is experiencing severely tight operating margins, and the price increase above world parity which will result from exports would threaten the economic viability of west coast independent refiners and thousands of family wage manufacturing jobs.

Third, allowing exports will result in relatively little, if any, net increased investment production and employment in Alaska and California as claimed by the Department of Energy. Since 1991, the price of ANS has increased by almost $3 a barrel relative to the world benchmark price of WTI, West Texas Crude. The result is that ANS is currently at world parity, and this fact has been acknowledged by the Alaska Department of Revenue in their Spring 1995 report.

British Petroleum is the largest producer, as we all know, and controls about half of the ANS crude. They are the primary spot market seller of ANS to independent refiners. Other major oil company producers of ANS only occasionally offer to sell spot volumes of ANS, and in fact one of them has been in the market buying ANS crude oil. That tells you how short this crude is becoming. By controlling the supply of oil delivered to the west coast and Gulf coast markets, British Petroleum has effectively managed the price of ANS on the west coast and driven it up to world parity.

If Congress allows unrestricted exports, the price will be bid up above world price parity because some refiners cannot readily import substitute foreign oil due to various logistical and quality constraints. This will permit the primary seller of ANS to extract a premium for it above world price parity. Thus, allowing exports of

ANS would increase the ability of a major foreign company to exercise its already considerable market power over the supply and pricing of ANS on the west coast market at the expense of independent refiners and ultimately consumers on the west coast.

I want to stress that the increased price of ANS relative to world prices has been a major factor in the recent dramatic decline in west coast refining margins. In fact, gross refining margins on the west coast have decreased about the same $3 per barrel since 1991 as the increase in the ANS price, and in fact west coast refining margins have fallen to their lowest levels in 10 years.

Unlike the ANS market, the gasoline market is very competitive on the west coast. If TOSCO was forced to absorb further increases in the price of ANS, we may face the decision whether or not to close one or both of our west coast refineries, which would mean the loss of hundreds of well paid manufacturing jobs, and I dare say taking that much gasoline out of the marketplace will certainly increase the price of gasoline, there is little doubt about that.

In fact, during the past two months we have been forced to reduce employment at our California refinery by 80 employees. This week layoff notices have been given to about an additional 100 employees in California, which represents 25 percent of our salaried staff. These are real jobs being lost today, not the promises of phantom jobs by the other side. In addition, discussions are ongoing with our unions regarding even further job cuts.

Contrary to claims by the DOE, the damage to the west coast refining industry and its employees from ANS exports would not be offset by a net increase in oil production and oil field employment as forecast by that department. In the case of Alaska, these forecasts are based on the totally——

The CHAIRMAN. How much more time do you have?

Mr. SUTTON. Two minutes.

The CHAIRMAN. All right. Make it a minute and a half.

Mr. SUTTON. All right, sir.

The CHAIRMAN. The reason I say that: I have got another appointment at two o'clock, and I still don't want to cut you short and ignore the other people for questions, OK?

Mr. SUTTON. Well, I'll make the point as far as the production issue and the increase. The oil price of ANS has gone up $3 a barrel since 1991 relative to the world oil price. It is up at world parity, and yet production has continued to decline. One has to ask, why do we think an increase of 50 cents to a dollar is going to drive prices up or drive production up further and create 25,000 jobs? In fact, the jobs issue is one where there are only 34,000 jobs in the entire industry on the west coast, including Alaska and California. If you produce an extra hundred thousand barrels a day, which is claimed by the other side, how are you going to increase jobs almost 100 percent? The math doesn't compute.

The same issue in regards to the jobs pertains to California. Their price has gone up $4 a barrel in the last four years relative to world oil prices, and their production continues to decline. They are not adding jobs, they are not adding production. So why is a 50 cent to a dollar increase going to automatically increase production? We wish it would, but we don't think it is going to happen.

So I'll just summarize the following, Mr. Chairman. Allowing exports of ANS will only, first of all, we believe, strengthen British Petroleum's already substantial market power over the supply and price of ANS oil, threaten the economic viability of independent refiners, jeopardize family wage refining jobs, and ultimately lead to higher prices for consumers on the west coast because refiners will not survive, they cannot continue to absorb these increases, and what you finally do is shift the energy security to the Far East, little doubt about that, and with, we don't think, any offsetting benefits.

Thank you for your time, Mr. Chairman.

[The statement of Mr. Sutton may be found at end of hearing.]

The CHAIRMAN. Thank you, Mr. Sutton.

Now we have Mr. Hancock, citizenship/legislative director, Oil, Chemical and Atomic Workers International Union.

**STATEMENT OF NOLAN W. HANCOCK, CITIZENS/LEGISLATIVE DIRECTOR, OIL, CHEMICAL, AND ATOMIC WORKERS, LAKEWOOD, COLORADO**

Mr. HANCOCK. I thank you, Mr. Chairman and members of the committee.

I would request that my written statement be entered into the record as printed, and I will summarize some of the important points.

Our union strongly supports the extension of the existing statutory restrictions on the export of Alaska crude. This has been our position for almost two decades, and it remains our position today. Mr. Chairman, it is important to remember why the restrictions on Alaska oil exports were adopted in the first place. In 1973 Congress passed legislation authorizing the construction of the Trans-Alaska Pipeline. As part of the agreement to pass this legislation, Congress required that none of this oil would be exported unless the President and Congress found that it was in the national interest to do so. These restrictions were passed because Congress wanted to reduce our dependence on foreign oil. They didn't want the State of Alaska or any multinational oil company deciding what was in their best interest in making more tax revenues or profits.

At the time that the U.S. experienced its first interruption in foreign oil, in 1973, we depended on foreign oil for about a third of our domestic production demand. Today we depend on imported oil for over a half of our needs. It simply doesn't make sense to export Alaska oil and import more oil to replace it. That just puts us more firmly in the hands of oil-producing nations that have shown that they are politically unstable.

It is important to remember that the AFL-CIO strongly supported the development of the Trans-Alaska Pipeline with the condition that there be strong export restrictions. That remains the AFL-CIO position today. We in OCAW fought hard to get those restrictions enacted in 1973, and we have continued that fight ever since. When those restrictions were enacted an entire refining and transportation infrastructure was developed on the west coast to handle the Alaska oil. Thousands of U.S. jobs have been created. Exporting Alaska oil amounts to an export of all too many of those U.S. jobs. This country can ill afford another policy which sends a precious crude resource abroad where the value-added work is done by foreign workers.

Mr. Chairman, we know the State of Alaska supports the export and it will gain tax revenue if H.R. 70 becomes law, and we know that British Petroleum will save transportation costs and shipbuilding costs, but we also know that our members and thousands of other U.S. workers will be the biggest losers if exports are permitted. Whatever small increase in Alaska production which export proponents claim will occur is completely overshadowed by the loss of refinery jobs that will occur on the west coast, not to mention the loss of shipyard repair and construction jobs.

Let there be no mistake, Alaska oil exports will cost thousands of American men and women their jobs. Many west coast independent refineries depend on the supplies of Alaska crude oil. If that oil is exported, they will have to pay more to get replacement oil from the Mideast carried on foreign flag tankers.

The U.S. refining industry is already threatened by gasoline imports from low-cost foreign refiners, which are typically Government owned, which are not subject to strict U.S. environmental and safety standards. U.S. refiners will face an additional competitive disadvantage if their preferred Alaska crude oil supplies are diverted to the export market.

With competition from low-cost foreign refiners and rising crude oil costs, the west coast refining industry is currently facing its most difficult operating conditions in a decade. Several refineries have been forced to close, and others are reporting operating losses. In California alone, employment in the refining industry has declined from 23,000 to less than 19,000 in 1994. If west coast refiners lose their supply of preferred Alaska crude feedstocks, the higher cost of using foreign oil will further undermine their competitiveness. That will inevitably lead to further refining job losses.

I want to remind this committee that the west coast contains one of the most modern, sophisticated, and complex mining industries in the world. Our Nation simply cannot afford further harm to this crucial part of our domestic manufacturing base.

Our union is particularly concerned about the risk that the Alaska crude oil would be replaced by gasoline and other refined products from foreign refiners. Foreign refiners are not subject to the strict U.S. environmental and safety standards. If they are allowed to take the crude oil from Alaska and replace it with finished product that is marketed on the west coast, this would constitute a direct displacement of U.S. refining capacity and U.S. jobs.

Over the past decade more than 100 domestic refineries have been forced to close, resulting in the loss of nearly 50,000 well paid manufacturing jobs. Any further reduction of U.S. refinery capacity would mean further job loss.

The CHAIRMAN. How much more time do you need?

Mr. HANCOCK. About one more minute, sir.

I would like to close with the following. I have a letter that I received yesterday from a refinery worker in Martinez, California, and he says, "The Avalon refinery that I work in has been here for over 80 years. My grandfather came to work here in 1928 as a stable boy fresh out of high school, and he has worked his way to shift foreman over 45 years. He believed this was a good place to work and to provide for his family. I have followed in his footsteps, as did many of my coworkers followed their fathers and grandfathers. Our livelihood is in jeopardy due to the cutthroat nature of the oil industry, the general sorry state of the economy, and now by the possibility of losing the very lifeblood of our refinery our jobs are in serious jeopardy," and he says let those folks in Congress know that we put them there to protect our interests, not just those of a few big companies.

Ours is a little company by oil industry standards, but these are good people, and we will not only supply but we will prosper given the opportunity.

Thank you, Mr. Chairman.

[The statement of Mr. Hancock may be found at end of hearing.]

The CHAIRMAN. Thank you.

Now we will have Mr. Jones.

**STATEMENT OF THOMAS P. JONES, JR., CHAIRMAN, SHIPBUILDERS COUNCIL OF AMERICA, ALEXANDRIA, VIRGINIA, ACCOMPANIED BY TOM DECKER, PORT OF PORTLAND, OREGON**

Mr. JONES. Thank you, Mr. Chairman.

My name is Thomas P. Jones, Junior, vice president of Atlantic Marine Holding Company of Jacksonville, Florida, and I'm chairman of the board of directors of the Shipbuilders Council of America.

Mr. Chairman, I have a written statement which I would ask be entered into the record, and I will very briefly summarize a few of the key points.

I will start out that I do represent the Shipbuilders Council whose members are builders and repairers of Jones Act tonnage. We represent private shipbuilding, ship repair yards, marine suppliers, and naval architects.

The Shipbuilders Council categorically opposes lifting the ban on export of Alaskan oil. The Council originally opposed utilization of U.S.-built ships because we believed it would violate the GATT agreement and the agreement to end shipbuilding subsidies which was finalized last year under the OECD. The existing proposal to limit this carriage to U.S. flag, U.S. crewed ships, will also face GATT and bilateral treaty challenges. We further believe that the seagoing unions which actively support this proposal will eventually see their job opportunities in this trade exported overseas.

We have already had indications that our foreign trading partners will object to these provisions. The ambassador from Denmark has written a letter to certain Members of Congress opposing this legislation because they find that such provisions are deeply objectionable, they are discriminatory, they constitute a threat to the system of international free trade, and the provisions would contravene the U.S. international commitments and obligations and depart from normal commercial practice, and the provisions for restricting the types of ships also represent a material and significant breach of U.S. obligations as entered into in bilateral treaties with a number of governments.

The ambassador stated that grave concerns that he expressed are shared by the Governments of Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, the United Kingdom, and the Commission of European Communities.

What this leads me to conclude is that the legislation will come under attack in international forums, and how that all turns out is of grave concern to us.

Recently Mr. Roger Clarke, chairman of the Consultative Shipping Group, composed of 14 nations involved in international trades with the U.S., stated that, "countries are very angry and concerned that their treaty rights will be violated," and nine of those 14 nations have bilateral shipping agreements with the United States. So we see that our trading partners see this as a violation of GATT and existing bilateral treaties, and therefore we expect there will be significant challenges if this is enacted.

Let me talk a little bit about job loss in our industries. We have done some analysis of the implications of job loss. First of all, I think the Port of Portland will confirm that they see some 500 to 800 jobs lost in the Port of Portland alone. According to our own analysis and to some independent oil and shipbuilding industry economists, there will be some 8,000 to 10,000 jobs lost in our industry if this bill is passed.

The threat to the Jones Act posed by this bill is very real. Thousands of American jobs in ship, boat, and barge construction and repair yards are at risk, as are thousands more seafaring union and nonunion jobs.

The recently completed OECD shipbuilding agreement leaves the Jones Act as the only long-term assistance program for U.S. shipyards. We need Jones Act tanker construction to build the base from which to compete in the international marketplace. If the Jones Act falls or is significantly weakened and if OPA 90 is significantly weakened, U.S. shipbuilding and ship repair will be devastated. In addition, we believe that if all Alaskan oil were exported, which is unlikely, but if it were, U.S. oil imports would rise from their present level of about 52 percent to over 60 percent, and by any standard U.S. interests are not served by an avoidable increase in our national dependence of foreign oil.

Mr. Chairman, thank you very much for your attention.

[The statement of Mr. Jones may be found at end of hearing.]

The CHAIRMAN. I thank you.

I'm just very curious, and I understand each one of our groups are opposing this, but I'm very curious, especially on this shipbuilding. I don't buy our neighbors telling me GATT is going to interfere. We are the only nation in the world that doesn't have a cabotage law. Now how and where do our trading partners get off telling us what to do? I mean that is pure nonsense. I voted against GATT. I hope you didn't support GATT. If you did, I'm disappointed.

Secondly, I think this Congress has the right to do anything it wants to do and I agree with the idea of American flag, American crude, and I had American built in my original bill, and BP supported that, and I think that at the appropriate time it would be right to go back to the American-built ship and then let one of those countries disagree with us and find out who is going to win that battle. That ought to take care of your problems.

I mean as shipbuilders you ought to love that, because that keeps the Jones Act in place, keeps the repair work in your yards, and what are you going to lose?

Mr. JONES. If the administration and future administration and the Congress take that attitude, there would be nothing to lose, but I think to bet the future of our industry on the resolution—that kind of resolution and forthrightness that you have stated——

The CHAIRMAN. I resent another country telling us we can't export something that we wish to export on our ships when they do it themselves. Is that correct? It is correct. If you look at the percentage of every country, including Denmark, including Norway, including Britain, including Japan and Korea, what they export has to be on their ships, or a large percentage of it, and here we are, the biggest importer, the biggest exporter, and we don't use our ships, and they are telling us that we can't use our ships. Now that, to me, shows very little credence.

I mean I'm not lecturing you. I have never understood that battle, why we can't in fact, as a Congress and with your industry, quit responding to every little penny-ante country telling us we can't do something. That is what I'm saying. Maybe I'm wrong. I have never understood this whole argument.

Mr. JONES. You are not wrong.

The CHAIRMAN. OK. And you are a shipbuilder. You know I support your industry. I think we are so far behind. The seafarers are trying to defend what few jobs they have got left. We ought to be united on this thing, and this is not just oil, as all the things, grains and everything else—timber, by the way, talking about 15,000 jobs, you know, all shipped on foreign-bottomed ships. I think that is wrong, but I understand your position, I understand why you are saying what you are saying.

The only question that I have for my good friend, Mr. Sutton: Who owns those private refineries? Who is the parent company?

Mr. SUTTON. In our company it is TOSCO Corporation.

The CHAIRMAN. Where are their headquarters?

Mr. SUTTON. The headquarters are in Connecticut, but we have three operating companies. We have got the TOSCO Refining Company, which I'm affiliated with, in California; we have got TOSCO Northwest Company, which is in the Seattle area and has a refinery in the Northwest; and we have the Bay Way Refining Company, which is the largest refinery in New York Harbor on the east coast. So there are really three companies that roll up to the corporate head office.

The CHAIRMAN. That was alluded to by a gentleman a while ago. The Coalition to Keep Alaska Oil has argued that Alaskan oil is sold at a discount on the west coast. Have you or any other independent refiners shared that discount with your consumers?

Mr. SUTTON. In the past? Is that your question?

The CHAIRMAN. Present, past, or in the future.

Mr. SUTTON. That goes to the issue of margins, refining margins, and the data in the DOE study boggles my mind, Mr. Chairman, how they came up with the data they came up with.

The CHAIRMAN. Along those lines, can you cite any documents that dispute what they had said?

Mr. SUTTON. Absolutely.

The CHAIRMAN. Outside your regime.

Mr. SUTTON. We can give you data which shows that the refining margins on the west coast have been declining steadily and that the refining margin—you see, they refer to gross margins. That is a smoke and mirrors. The gross margin has nothing to do with your profitability. You have to go to the net margin. We have the highest refining costs in the world, because of environmental, because of the type of crude oil we process. So when you get to the net margin and you compare that across the country, all the refining regions, we compare very favorably. This notion that we are out here and the rest of the world is here is absolutely false.

The CHAIRMAN. OK. I would like to see those, just out of curiosity.

My time is just about up, but one question for my friends from the unions there. Have you made a point of studying why those refineries have closed down in California, the loss of work?

Mr. HANCOCK. We have not made a study, no, but I can tell you that back during the early eighties when we were opposing the decontrol of oil and the companies were telling us that we wouldn't be losing refineries because of that decontrol, we lost 136 refineries, over 50,000 members of my union, because of that particular piece of legislation.

The companies are telling us now that the margins are so low, and you just heard the gentleman say that they are now in the process of laying off additional workers. It is these jobs that we feel are in jeopardy, and the workers in those plants are certainly telling us that those jobs are in jeopardy.

The CHAIRMAN. The thing that concerns me the most: I think if you will check out why most of them closed, it wasn't because of the inability of feedstock, it was all the other things we piled on to the industry. There are no new refineries being built, as you well know.

Mr. HANCOCK. From the analysis that we did at that time, it was that the feedstocks ended up costing more than the value of the gasoline that they were able to sell.

The CHAIRMAN. Again, we have not encouraged any domestic production in the United States, we are importing everything now, by the way on foreign bottom ships, not one gallon of gasoline that comes—or jet fuel that comes into the United States on one of our ships, and that is what we are driving our cars with.

Anyway, my time is up.

Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. Sutton, I share your concerns that the Department of Energy study draws some conclusions based upon some evidence that just isn't consistent with the information that we have about the industry across the board on the west coast.

I just sat through the presentation where one of the refiners in my district—you know, there is a process which refiners go through, and they are compared to all of the other refineries and it is an annual thing that all refiners do to see kind of where they are. I forget the name of the fellow that does it.

The fact is, they are very competitive in every part until you get down to margins, and these margins on the west coast are in fact very small and very tight, and the question—one of the questions I would have for you, in that you run both California crude and Alaska—what happens if you have to back out, if the availability of this crude is not available? What are the dynamics of replacing that with California crude?

Mr. SUTTON. If ANS is not available?

Mr. MILLER. In the amount that you would need.

Mr. SUTTON. In the amounts that we need. If it is exported, the notion that we are going to substitute barrel for barrel heavy California crude oil is incorrect. We have been stating this for years, and it is the following reason. That crude oil is not of like quality. Number one, it is a much heavier, low quality crude oil. It takes certain processes to turn it into gasoline.

Keep in mind, the west coast is a gasoline market, it is not a fuel oil market, and if you take heavy crude oil and you process it beyond the capability of the units you have to make gasoline, you wind up making fuel oil, and therefore you have to export the fuel oil, and that is why the heavy crude oil price is driven to a great extent by the fuel oil price, the incremental barrel it makes, and it moves with that price and with foreign, offshore heavy crude prices.

So we would not be substituting barrel for barrel. What we would be doing is going offshore to find some kind of crude that was compatible in quality to the ANS, whether it be Oriente or some crude from Latin America, Oman, whatever, and with all the problems attendant with bringing that kind of crude in.

There was some comment earlier regarding environmental risks, and the comment was that, gee, we are going to be having less tankers coming in and out of the west coast if we export crude oil. Not true. When we bring in foreign crude oil, we have to lighter that crude oil into multiple ships in the San Francisco Bay. Here we are talking the most pristine bay in the world probably, and we are going to do multiple, multiple lighterings. This is a risk that our company is scared to death about, quite frankly.

Mr. MILLER. What bothers me is the suggestion that there is going to be an increase of jobs in Alaska because BP is going to reinvest 100 percent. There is no indication of anything in that company that suggests they are going to reinvest 100 percent. The suggestion is that you will easily replace this with California crude, thereby increase the price of California crude to those people, and yet you are saying in your company that that is not available to you, and then there is no benefit in the balance of payments here if you are going to go offshore to retrieve the oil that is not available to you from Alaska, or certainly it is diminished, from what DOE talks about.

Finally, on this point that the Chairman has raised and Mr. Abercrombie and myself and others, I'm looking at minutes of a meeting that was held with the State of Alaska on April 7—21, excuse me—or I think the meeting was on the 7th, and Roger Gale of BP Shipping estimates that export to Asia would require fewer vessel calls at the Alyeska Terminal rather than more, citing figures of the average vessel tonnage required to move a barrel of oil to a given estimation, that they may step up the class of tanker I guess is what that suggests coming there, and yet the person sits at the table here from BP and says, oh, we are going to take these ships out of mothballs and we are going to bring them back.

Something is not right here. I mean the evidence for this policy—and I understand why many people want the policy change, but the evidence is sort of these shifting sands. You can't quite get your hands on it in terms of getting it tied down, and it is inconsistent with what we know happens on the ground in terms of operations and procedures, and even in the case of the shipping, whether these are going to be American bottoms, whether it is going to increase jobs, the suggestion is almost the opposite, because the size of the tanker doesn't equate to increased jobs, and if you are going to have fewer runs, if you get into the Asian market, I suggest that the dynamics, at least in my mind, they are not quite as settled as people have made to make this decision.

The CHAIRMAN. The solution, if the gentleman will yield, is of course, as I said, to build American ships, and that solves the whole problem.

Mr. MILLER. That solves part of the problem, it doesn't solve the refining problem.

The CHAIRMAN. There are ways that can be done.

Mr. MILLER. Let me ask you a question about the issue of access versus price. One of the concerns would be that if BP, which controls 40 percent of this operation, decides not to sell into the west coast but to sell somewhere else, for whatever reasons, then you have got to go out and look for that other oil. Is there an issue here about having access to an historical amount of oil for your refinery, the refinery in Washington?

Mr. SUTTON. The issues are linked. I think access and price are linked.

Mr. MILLER. I know they are linked, but this Congress is probably never going to get back into the business of controlling price.

Mr. SUTTON. Access to the oil is very important to us, quite frankly, but the thing that concerns me is that BP may control 40 percent of the oil but they might as well control all of the oil from the standpoint of its impact on availability and price. If we had to choose one over the other, if we have availability and the price isn't right and we are absorbing it, we are just going to be out of business that much quicker, so there is a linkage there.

The CHAIRMAN. Would the gentleman yield? I'm not about to sit and say you're going to set the price that makes you profitable. That is not fair. Now what you need is, you need accessibility to that oil. Now if the price is different, that is your problem. You can move it on to the consumer.

You just said what has been my problem. Your refineries have had the challenge of having not only guaranteed supply of oil but also fixing the price and the profit level. Now your margins may be smaller, but you are guaranteed a profit. I don't think that is cricket.

The gentleman from Oregon.

Mr. COOLEY. Thank you, Mr. Chairman.

I would like to ask Tom Decker some questions, because he came all the way from Portland, Oregon, and it is something that very much concerns us.

The CHAIRMAN. I appreciate that, and, Tom, we aren't ignoring you. You were supposed to be there to answer questions according to my people, but go right ahead.

Mr. COOLEY. Right.

Tom, would you tell the subcommittee why the port made that huge investment in the shipyards that we built there.

Mr. DECKER. Let me give you a quick bit of background. We are a repair yard, not a new building yard. The improvements in the yard were financed by an $84 billion bond measure by our taxpayers in 1976. That was predicated to a large degree on Alaska oil supplies and the congressional action to limit the export of Alaskan North Slope oil. So Alaska oil has figured importantly in our success over the years.

I think the key I would talk about today though is the fact that it is not really the port that is at risk here in this equation, the folks who are at risk in Portland are the shipyard workers and the taxpayers who would have to foot that bill if it goes back on the tax rolls.

Mr. COOLEY. How much was that bond?

Mr. DECKER. The bond was for $84 billion in 1976.

Mr. COOLEY. Could you give me the impact on the jobs in the oil tanker business in Portland right now.

Mr. DECKER. A typical tanker repair job will take between 300 and 600 workers while the vessel is in the yard. Given the number of vessels we do in a typical year, that equates to 500 to 800 jobs right now that are directly related to Alaska oil tanker business, and when the yard is working at full capacity those numbers are more like 900 to 1,200 family wage jobs directly related to Alaska oil tankers.

Mr. COOLEY. OK. And then another thing: Under the present law, the U.S. flagships, aren't they required by current law to be repaired in U.S. yards? Is that true or not?

Mr. DECKER. The law does call for repair in U.S. yards, but I think most people are aware that that law has been circumvented quite frequently in actual practice. In other words, a shipowner can usually have repair work done overseas and cite the fact that once they get into dry-dock emergency repair work is required. They do pay an ad valorem duty on some of those repairs when the ship returns to this country, but I think most of the committee members are aware, we expect that the administration is going to propose repealing that ad valorem duty in the near future, but even with the ad valorem duty in place it is circumvented so often that we don't think it is really effective.

Mr. COOLEY. Thank you.

Thank you very much, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

One of the things we are having these hearings for, we are trying to look for solutions. I do want to lift this ban, and we can solve your problems, which I think can be done, because you are right, they have circumvented the intent of the law for repair.

But my intent as I said, American crewed, American flagged, and American repaired, and that will solve a lot of our problems, and if we can figure out a way to get you a guaranteed supply of oil at a reasonable world market price where you have access, we will solve your problems. You see, I'm solution oriented.

My good Hawaiian friend.

Mr. ABERCROMBIE. Thank you, Mr. Chairman. I realize you have an appointment right now, and I'll be very brief.

First, I just want to say to you that I support your position with respect to the American-built ships. I don't think it is being arbitrary, I think it is well within the GATT principles. I don't think we signed away that element of our trade avenues. So I would like to see that in this legislation if that is your pleasure.

We don't need to discuss it now, but I just want to indicate to you, I think your position is a sound one.

And, Mr. Jones, I hope that you folks would have that in mind. I think you will find a lot of support in this committee across the board for that kind of legislation. I realize your testimony has to be based on the legislation that is in front of you as you look at it, but that doesn't prevent you from being able to make suggestions or to follow up.

Then, Mr. Chairman, the last thing I want to say—and, Mr. Sutton, I think this applies to you and Mr. Hancock as well—is that I too am having a little trouble grasping the sand that seems to be here. It is running through my fingers. On the one hand I'm being told you have nothing to worry about, and logic dictates, any time I deal with logics and politics, I start quaking, and so with that in mind, Mr. Chairman, I'm just going to follow along and count on your good offices and my knowledge of you. I know you are going to try to make this as fair as you can all the way around.

So I'll leave it at that for the time being and try to work with you and the staff to see that it is fair to everybody.

The CHAIRMAN. I thank the gentleman.

I want to thank the panel too. I know it is late, and you had to sit through this whole thing.

In closing——

Mr. ABERCROMBIE. Mr. Chairman, excuse me. Before you close, may I have your permission and the committee's permission to submit questions to be asked for the record?

The CHAIRMAN. Absolutely.

Mr. ABERCROMBIE. Thank you.

The CHAIRMAN. I'm here to solve problems. But do me one favor. I have little feelings for people that say no way, because that is not the way you solve problems, because you end up bringing them up against a brick wall.

This does affect my State. We have lost millions of dollars because of this provision to my taxpayers too and to my people, and we are trying to make sure that we have created this challenge, that we take care of those that would be hurt but also give us an opportunity to do what we think is correct, because every time we use $1 or $1.50 or $4 a barrel, that I don't think is correct to a resource that belongs to the State of Alaska. This is not national oil, it is Alaskan oil, and we need every bit of benefit ourselves.

So I thank the panel and the people who are here today, and this committee is adjourned.

[Whereupon, at 2:11 p.m., the committee was adjourned; and the following was submitted for the record:]

I

104TH CONGRESS
1ST SESSION

# H. R. 70

To permit exports of certain domestically produced crude oil, and for other purposes.

---

## IN THE HOUSE OF REPRESENTATIVES

JANUARY 4, 1995

Mr. THOMAS (for himself, Mr. YOUNG of Alaska, Mr. ROHRABACHER, Mr. DOOLITTLE, Mr. DOOLEY, Mr. GALLEGLY, and Mr. ARCHER) introduced the following bill; which was referred to the Committee on Resources and, in addition, to the Committee on International Relations, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

MAY 4, 1995

Additional sponsors: Mr. MCCRERY, Mr. COX of California, Mr. CALVERT, Mr. LAUGHLIN, Mr. ENGLISH of Pennsylvania, Mr. TAUZIN, Mr. BALLENGER, Mr. FIELDS of Texas, Mr. SOLOMON, Mr. POMBO, Mr. PARKER, Mr. STUDDS, Mr. MCKEON, Mr. PETE GEREN of Texas, Mr. BREWSTER, Mr. FLANAGAN, Mr. EDWARDS, Mr. CHAPMAN, Mr. STUMP, Mr. TAYLOR of North Carolina, Mr. SKEEN, Mr. HORN, Mr. CUNNINGHAM, Mr. LEWIS of California, Mr. DELAY, Mr. BONO, Mr. KIM, Mr. GENE GREEN of Texas, Mr. BOEHNER, Mrs. SEASTRAND, Mr. KLUG, Mr. ROYCE, Mr. MANTON, Mr. HUNTER, Mr. COMBEST, Mr. THORNBERRY, Mrs. LINCOLN, Mrs. CHENOWETH, Mr. SMITH of Texas, Mr. EHRLICH, Mr. BARTLETT of Maryland, Mr. PAXON, Mr. BONILLA, Mr. RADANOVICH, Mr. CHABOT, Mr. HASTINGS of Washington, Mr. BILBRAY, Mr. ANDREWS, Mr. CLEMENT, Mr. STENHOLM, Mr. LARGENT, Mr. POSHARD, Mr. UNDERWOOD, Mr. ROBERTS, Mr. SAM JOHNSON of Texas, Mr. WATTS of Oklahoma, Mr. MOORHEAD, Mr. HALL of Texas, Mr. FAZIO of California, Mr. CREMEANS, Mr. MARTINEZ, Mrs. VUCANOVICH, Mr. TORKILDSEN, and Mr. FROST

Deleted sponsor: Mr. TORRES (added February 3, 1995; deleted February 28, 1995)

# A BILL

To permit exports of certain domestically produced crude oil, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. EXPORTS OF ALASKAN NORTH SLOPE OIL.**

Section 28 of the Mineral Leasing Act (30 U.S.C. 185) is amended—

(1) by amending subsection (s) to read as follows:

"EXPORTS OF ALASKAN NORTH SLOPE OIL

"(s)(1) Subject to paragraphs (2) and (3), notwithstanding any other provision of law (including any regulation), any oil transported by pipeline over a right-of-way granted pursuant to section 203 of the Trans-Alaska Pipeline Authorization Act (43 U.S.C. 1652) may be exported.

"(2) Except in the case of oil exported to a country pursuant to a bilateral international oil supply agreement entered into by the United States with the country before June 25, 1979, or to a country pursuant to the International Emergency Oil Sharing Plan of the International Energy Agency, the oil shall be transported by a vessel documented under the laws of the United States and owned by a citizen of the United States (as determined in accordance with section 2 of the Shipping Act, 1916 (46 U.S.C. App. 802)).

"(3) Nothing in this subsection shall restrict the authority of the President under the Constitution, the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.), or the National Emergencies Act (50 U.S.C. 1601 et seq.) to prohibit exportation of the oil."; and

(2) by striking subsection (u).

○

**STATEMENT OF**

**WILLIAM H. WHITE**

**DEPUTY SECRETARY OF ENERGY**

**before the**

**COMMITTEE ON RESOURCES**

**U.S. HOUSE OF REPRESENTATIVES**

**MAY 9, 1995**

91-746 O - 95 - 3

Mr. Chairman, it is a pleasure for me to appear before the Committee today to discuss permitting the export of Alaskan North Slope (ANS) crude oil. I am pleased to report that the Administration supports this initiative and hopes to work with the Congress toward enactment of legislation to permit the exportation of Alaskan North Slope crude oil.

The export of Alaskan North Slope crude oil is an important component of this Administration's energy policy because it has broad implications for the nation and for the states of Alaska and California. The benefits (discussed below in more detail) include:

- increased federal and state revenues,
- more oil production from fields in Alaska and California while additional reserves are created,
- more jobs in the oil sector and indirectly in the broader economy, while saving jobs in the maritime industry, and
- little or no impact on the environment or on consumer prices for gasoline.

We have reached these conclusions after studying the impacts of permitting export of ANS crude oil and issuing a detailed report on June 30, 1994. Copies of that report have been provided to the Committee.

Fundamentally, the existing export restriction distorts the crude oil markets in Alaska and the West Coast in counterproductive ways. The benefits of permitting export of ANS crude oil, according to our analysis, are significant:

- Revenues to State governments would rise during 1994-2000 by:
  - $180 to $230 million for California from Federal royalties and state and local taxes;
  - $700 million to $1.6 billion for Alaska from severance taxes and royalties.
- Federal receipts related to royalties and sales of Elk Hills oil production would total between $99 and $180 million.
- Oil production-related employment would increase by a net of 10,000 to 25,000 jobs nationally; many would be in California oil production. This takes into account a small number of job losses (less than 500) in the maritime sector.
- Refining employment overall would not be affected; history shows that refinery capacity, and therefore refining industry employment, is determined by U.S. petroleum consumption.
- In Alaska alone, reserve additions could be in the 200 to 400 million barrel range by the year 2000, a size that roughly equates to the known reserves in major North Slope fields such as Point McIntyre and Endicott.
- Incremental oil production would be between 30,000 and 50,000 barrels per day in California by the year 2000, and 50,000 to 70,000 barrels per day in Alaska.

The Department has consulted with the broad range of interested parties. We held public meetings in San Francisco and Anchorage in March of 1994, at which more than 50 organizations presented their views. We had a great deal of comment on our draft report. Since the report's release last June, the Secretary of Energy, I, and both our staffs have met many times with members of Congress, various associations and interest groups, and the public on this issue. I believe that this process has helped all of us understand the concerns of all the interested parties.

Based on this extensive consultation process, the Administration is convinced that there are significant economic and energy benefits that can be gained from permitting exports of ANS crude. In the course of our review, however, the Administration identified five requirements that must be addressed in the legislation:

1. Retain Emergency Authority--The President must retain the authority he has under current law, including the Constitution, the International Emergency Economic Powers Act, and the National Emergencies Act, to reinstate the ban should exports be found to be contributing to adverse energy, economic or environmental conditions, or otherwise threatening the national economic security.

2. Require Export in U.S.-Flag Vessels--All ANS oil must be exported in U.S.-flagged and U.S.-crewed vessels. Reforms should not transfer existing seafarer employment abroad. Legislation must provide substantial protection of seafarer employment opportunities for American workers.

3. Review Environmental Effects--Before any oil is exported, an environmental review must be undertaken, consistent with the National Environmental Policy Act of 1970. Environmental resources must be fully protected.

4. Assure Supplies for U.S. Refineries--U.S. refineries must have continued access to adequate supplies of crude oil, including crude oil at prevailing market prices. Refiners must be protected from anticompetitive activity that would threaten that supply. If evidence of such anticompetitive

behavior develops -- such as sustained crude supply shortages on the West Coast or price increases significantly above world market levels -- appropriate enforcement action should be taken, including the denial or suspension of crude oil export licenses.

5. Appropriate Export Administration--Any export of ANS crude oil made pursuant to this bill should be approved and administered through the appropriate export licensing process that gives the President authority to impose such terms and conditions on exports as are necessary or appropriate. Licensing will assure the monitoring and enforcement of all conditions under which the exports are permitted. Any export license will be processed on an expedited and user-friendly process that is consistent with obligations to consider environmental and energy security impacts.

H.R. 70, Mr. Chairman, already contains provisions corresponding to the first and second elements on this list. In addition to these requirements, key factors that must be addressed as legislative action is pursued include:

1. Consumers Protection -- Exports must not cause substantial increases to retail gasoline or other petroleum product prices. Our assessment is that the product price impacts of permitting ANS crude oil exports would be minimal or non-existent.

2. Job Growth and Protection -- Any proposal to permit ANS exports should reasonably be expected to expand employment opportunities in the U.S. economy, without causing undue job loss in sectors currently dependent on ANS production and transportation.

   - **Employment in the Oil Production and Refining Industries.** DOE's analysis concludes that permitting ANS exports would result in increased oil industry employment of between 10,000 and 25,000 jobs. Reforms should permit the crude oil market to operate more efficiently. We would anticipate that ANS crude oil will continue to be made available to West Coast refineries, but that the price would adjust to prevailing market prices. We believe that the abundant worldwide supply of crude oil will ensure that prices for ANS crude sold to U.S. refiners will not rise above world market levels.

**Employment for U.S. Seafarers**. Reforms should not transfer seafarer employment opportunities abroad.

- **Employment for U.S. Shipbuilders**. The Administration is engaged in ongoing efforts to enhance competitive opportunities for U.S. shipyards by opening foreign markets to U.S. shipbuilders. In October 1993, the Clinton Administration announced a comprehensive plan to strengthen the U.S. shipbuilding industry. This plan includes the following elements: (1) ensuring fair international competition; (2) improving competitiveness through increased research and development funding; (3) eliminating unnecessary government regulation; (4) financing ship sales through Title XI loan guarantees; and (5) assisting international marketing. Consistent with this plan, on December 21, 1994, the United States, along with other major shipbuilding nations, signed an agreement that requires signatories to eliminate subsidies and other trade distorting measures, including "home-build" requirements, to the commercial shipbuilding and repair industry. The Agreement was negotiated under the auspices of the Organization for Economic Cooperation and Development (OECD). This multilateral agreement will eliminate foreign shipbuilding subsidies and other distortive trade practices that limit competitive opportunities for U.S. shipyards.

3. Adherence to International Trade Commitments -- Of course, any conditions imposed on exports must be consistent with established U.S. international trade policies. A home-build requirement for ANS crude exports raises legal issues of concern vis-a-vis U.S. international trade obligations.

   Thus, we oppose any requirement that ANS oil exports be carried on U.S.-built vessels.

   There has been concern expressed that requiring U.S. flag vessels to carry exports of ANS crude oil would set a dangerous precedent with respect to extending cargo preference in shipping trade. The Administration views the requirement of flag-preference for ANS crude as unique, since there is the very real danger of lost seafarer jobs resulting from the displacement of shipments now carried in the coastwide trade. This action should not be viewed as opening further possibilities for extending cargo preference.

4. Environmental Protection -- Environmental resources must be fully protected. DOE analyzed potential environmental impacts in our June 1994 study. In the course of that initial review, we found no plausible evidence of any direct, negative environmental impacts. There would be no need to

expand the Trans-Alaska Pipeline, and the number of overall tanker movements in U.S. waters would be reduced. Moreover, indirect effects, such as changes in California refinery activity and increased California production, would be strictly regulated under existing regulatory regimes.

All shipping that occurs as a result of permitting ANS exports, including exports from Alaska and offsetting imports into the U.S., will have to meet all prevailing U.S. environmental protection requirements, including the new provisions of the Oil Pollution Act of 1990.

Nonetheless, before any export of ANS crude oil is permitted, an environmental assessment consistent with the requirements of the National Environmental Policy Act of 1970 should be undertaken.

Legislation to permit export of ANS crude oil should not be linked to a change in status of the Arctic National Wildlife Refuge. The Administration has not altered its opposition to exploration and development of any oil resources that may be under the coastal plain of the Arctic National Wildlife Refuge. Further, the Refuge will continue to be managed for its wildlife and wilderness values.

5. ANS Export Policy Monitoring -- Interested parties should review ANS export activities periodically. Once ANS exports have begun, appropriate federal agencies should consult with affected state and local governments, interested industry and worker representatives, and environmental organizations to help ensure that the policy is implemented consistent with all license terms and any other applicable energy, economic, and environmental criteria. Moreover, we are prepared to track petroleum market and refining activities in the period following Congressional modification of the ban.

Mr. Chairman, I believe that H.R. 70 provides a vehicle for permitting Alaskan North Slope crude oil exports consistent with these principles. We believe the bill would be substantially improved by requiring an appropriate environmental assessment before approving export activities and by providing for appropriate enforcement action, including revoking permission to export, in the event of anticompetitive behavior that injures U.S. industry.

Some argue that allowing exports of ANS crude oil will increase product costs to consumers. We believe the export of ANS crude oil should not affect consumers adversely. Our evaluations indicate that ANS oil exports might raise the market prices of California and Alaskan crude oil by as much as $1.20 and $1.60 per barrel. More than half ANS crude oil and 75 percent of California crude oil is produced by refiners that process it themselves, or trade it for more convenient supplies. When this is taken into account, the average cost increase to refiners is slightly over <u>one</u> cent per gallon of crude.

We examined historical price movements on the West Coast and discovered that small movements in West Coast crude oil prices were much less a determinant of gasoline and diesel fuel prices than were prices for these products in other markets such as the Gulf Coast. We concluded that plentiful supplies of petroleum products would make it impossible for retailers to increase gasoline or other product prices above those market levels. Accordingly, we anticipate that higher refiner ANS crude acquisition costs will not passed through to consumers. As stated earlier, we also believe that plentiful crude supplies will prevent refiners' crude costs from rising above market levels.

Those who are concerned about the potential environmental effects of permitting exports fear that "replacement crude" will be imported into environmentally fragile areas of the West Coast on poorly maintain foreign flag vessels. Assuming West Coast refiners are willing to pay world market prices -- as all other U.S. refiners now do -- they should continue to have access to ANS crude. Therefore, we do not believe there will be significant additional shipments of crude brought into the West Coast, beyond quantities they currently import, as a result of ANS exports. In any event, any tanker traffic will of course have to meet rigorous national environmental safety standards, including Oil Pollution Act of 1990 regulations, just as they do now.

In conclusion, Mr. Chairman, I want to reiterate the Administration's support for a policy that permits export of Alaskan North Slope crude oil in a manner that is consistent with the five principles listed above.

**TESTIMONY OF THE HON. WILLIAM M. THOMAS
HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND NATURAL RESOURCES
MAY 9, 1995**

Mr. Chairman, I applaud the Committee's decision to conduct a comprehensive overhaul of an archaic export policy. The conclusion of the Cold War gives us an opportunity to enhance the ability of U.S. businesses to compete in the arena of international trade.

Today I am speaking in support of my bill, H.R. 70, which will end the ban on exports of Alaskan North Slope (ANS) crude oil.

The ANS ban has been in effect for over twenty years, and was created in order to, among other things, "safeguard our energy security". During this twenty year period, I have seen no evidence to support this hypothesis. In fact, the evidence clearly demonstrates that our dependence on foreign oil has increased over this period. Domestic production is declining as a result of this export ban, while demand for oil continues to increase. The shortfall can only be met through increased imports, which helps to explain why we now import around 50 percent of all energy consumed in the United States. Perhaps the supporters of the ban could try to explain to the American people how a continued decline in domestic production, coupled with increasing demand, has enhanced our energy security?

Recently, there has been discussion of the possible sale of the Naval Petroleum Reserves at Elk Hills, California. With the current price of crude artificially depressed due to the ban on the sale of ANS crude, eliminating the ban would greatly enhance the value of the facility and its return to the taxpayer would be subsequently enhanced.

It is critical that we recognize the importance of the ANS issue. Do we want to sell the Naval Petroleum Reserves or increase its value? Do we want to help heavy oil producers maintain their economic viability through royalty relief proposals such as those offered by the Bureau of Land Management? If so, we must repeal the ANS ban first, to ensure that we are dealing with the cause of the problems, and not just the symptoms.

For years, efforts to repeal the ban have been met with opposition from maritime unions, who were concerned that the repeal of the ban would adversely affect the U.S. merchant fleet jobs. Now, a compromise has been reached which accomplishes the goal of lifting the ban while ensuring the interests of the maritime unions.

The unions now agree that ending of the ANS crude ban is consistent with the economic security and defense interests of the nation in that it provides employment opportunities for American citizens and ensures the nation a fleet of American-flag tankers.

Given the current declining North Slope Production, the independent tanker fleet and the men and women who crew the vessels face a bleak future. By encouraging oil production, ANS exports can help secure their future and preserve jobs that otherwise would be lost.

On March 1, the Administration announced that it was "convinced that there are economic and energy benefits that can be gained from permitting exports of ANS crude."

In setting forth requirements for inclusion in the final legislative language, the Administration stated:

> "All ANS oil must be exported in U.S.-flagged and U.S.-crewed vessels. Reforms should not transfer existing seafarer employment abroad. Legislation must provide substantial protection of seafarer employment opportunities for American workers."

As introduced, H.R. 70 satisfies this condition. Under the bill, ANS crude may be exported only if "transported by a vessel documented under the laws of the United States and owned by a citizen of the United States..."

In addition, our government's own energy experts have recently confirmed the substantial benefits to be gained in lifting the ban. Ten months ago, the Department of Energy (DOE) released a report, outlining the effects of lifting the current Alaskan North Slope (ANS) crude oil ban. The report confirmed what we have been arguing for years, that is, repealing the ban will add to our energy security, protect the environment from tanker spills, create thousands of jobs, increase domestic production and increase federal and state revenues.

The multi-department study determined:

- There would be <u>a net increase</u> in U.S. employment of up to 16,000 jobs. By the end of the decade, job increases could reach 20,000.
- Oil production in Alaska and California could be increased by as much as 100 to 110 thousand barrels per day by the end of the decade. Reserve additions in Alaska alone could be as large as 200 to 400 million barrels of oil.
- Increased federal receipts related to royalties and sales of oil would total between $99 and $180 million.
- All of these benefits would occur without any significantly negative environmental implications.

A Congressional Budget Office study has also reviewed H.R. 70, and confirmed the positive effects which were indicated in the DOE report, indicating a savings to the federal government of $55 million. The DOE and the CBO reports clearly show there are now no valid reasons other than politics for the ban to remain in place.

Government interference in this market has not worked and must be ended. Our economy is based on the operation of the market, and there is no economic argument that can be advanced to justify the continued market-distorting ban on exports of ANS crude. The market can and should dictate where this oil goes and the price for which it is sold.

Additionally, lifting this ban would lead to a reduction in the number of tankers, loaded with crude oil, traveling along nearly the entire western coastline of the North American continent. By allowing the export of ANS crude, some amount of this oil will be shipped to markets in the Far East. As a result, fewer tankers will make the trip along the coast to their current destinations in Washington and California, and eliminate movement of ANS crude oil to the Gulf Coast that involves multiple loading and unloading operations. This clearly translates into a reduced risk of oil spills, small and large, along both Canadian and U.S. coastlines.

I urge my colleagues to give this issue careful consideration and not overlook the fact that our domestic oil industry is being harmed by this knee-jerk reaction in the days of the energy crisis. If we are truly serious about encouraging domestic production and exploration of our natural resources, we should end this market-distorting ban on the export of Alaskan oil.

All of the issues have been settled: the unions have agreed that this legislation will ensure an independent tanker fleet; the trade issues have been addressed, and the US Trade Representative has noted that the U.S.-flag requirement does not present any legal problems to international trade; producers will benefit as increased revenues from marginal wells are realized.

Mr. Chairman, who can argue against national security, increased jobs, more domestic oil production, increased federal revenues and reduced environmental danger? The DOE study repudiates all of the arguments used for years by supporters of the ban. Let us change this outmoded policy and pass H.R. 70 which will repeal the ban on Alaskan North Slope crude oil, and spur domestic energy production at a savings to the taxpayer of $55 million.

TESTIMONY OF
ROGER MARKS
PETROLEUM ECONOMIST
STATE OF ALASKA, DEPARTMENT OF REVENUE

BEFORE THE
HOUSE RESOURCES COMMITTEE
REGARDING
HOUSE BILL 70, TO PERMIT EXPORTS OF ALASKA NORTH SLOPE OIL
May 9, 1995

Mr. Chairman, members of the Committee, I am Roger Marks, Petroleum Economist for the State of Alaska Department of Revenue. On behalf of myself and Governor Knowles, I thank you for the opportunity to speak to you today about this issue of long-standing importance to the State of Alaska.

The export ban on Alaska North Slope (ANS) crude oil has effectively held the West Coast oil market captive for the past 18 years. It has negatively impacted the value of every barrel of oil transported through the Trans-Alaska Pipeline, under valuing ANS production by a total of nearly $14 billion. The diminished value of our royalty oil, and the loss to the State in tax revenue, is felt especially now, as we face the seventh consecutive year of decline in production from our North Slope oil fields.

The economic impact of the export ban, of course, goes far beyond Alaska's borders. When the value of oil in the ground is decreased, less oil is feasible to produce. Every barrel less feasible to produce must therefore be imported. In addition, the capital, equipment and personnel invested for the Alaskan oil industry comes from all across this country. Thus, the ban continues to depress U.S. economic growth and employment. Also, we all recognize that the dollar is very weak now. Any addition to U.S. exports increases the strength of the dollar and decreases inflationary pressures in the domestic economy.

The closest geographic market destination for ANS, as you know, Mr. Chairman, is our own West Coast. Even in natural post export ban market conditions most of Alaska's production will be sold there. The next closest market for ANS is the Pacific Rim. ANS is the only U.S. oil production encumbered with an outright export restriction. Because of the ban, most ANS oil not sold in Washington or California must be further transported all the way to the Gulf of Mexico. This routing more than doubles what it would cost to move the oil to Japan on American flagged vessels.

As you can see, the ban drives down the value of ANS in two ways. First, because of the export ban it is necessary to transport the surplus West Coast crude to the Gulf of Mexico market. Currently 15 percent of ANS production - 240,000 barrels a day - leaves the West Coast. During the mid 1980's the volume was as high as 1 million barrels a day, 50% of production at that time. This adds approximately $2.50 a barrel to transportation costs, a net loss of nearly 25 percent of the wellhead value.[1]

Second, because the additional transportation costs to the Gulf are so high, not all the excess West Coast crude is moved to the Gulf. Some of the excess remains on the West Coast, creating a glut on the market. Currently, West Coast ANS prices lag Gulf Coast prices by 50 cents a barrel. During the eighties, this was nearly $2 in loss per barrel. The glut, of course, effects not only ANS oil, but California production as well.

We estimate that these two effects will cost the State of Alaska $80 million in 1996.

Lifting the export ban would change the West Coast from a restricted market to a competitive market. Since transportation costs to the West Coast are less than that to the Far East, just as much oil would move to the West Coast as does now. It is simply that the excess would go to its next best natural market, at a cost far less than that to the Gulf.

Allowing ANS to rise to its natural value will actually encourage additional production from existing fields in Alaska and California. This, ironically, will have the effect of reducing our dependence on imports.

If there ever was a consumer price benefit created by the ban, it has yet to show itself. Due to the market restriction created by the ban, crude oil prices for American West Coast refiners are the lowest in the world. None of this benefit, however, has been passed on to West Coast consumers. Gasoline prices in California are the same, or higher, than they are anywhere else in the country.

With this bill the U.S. maritime crude oil trade is maintained. With this bill production of U.S. reserves is increased because the value of the resource is allowed to rise to world market prices. And, because the President retains the emergency authority to re-impose the ban, the nationally security is protected.

The export ban has burdened the State of Alaska and the North Slope producers for every single one of the 11 billion barrels produced over the last 18 years, at a cost of economic growth, employment and national security. ANS is now in its seventh year of irreversible decline. In an age of increasing market freedoms, it is absurd that American industry is inhibited from realizing full market value.

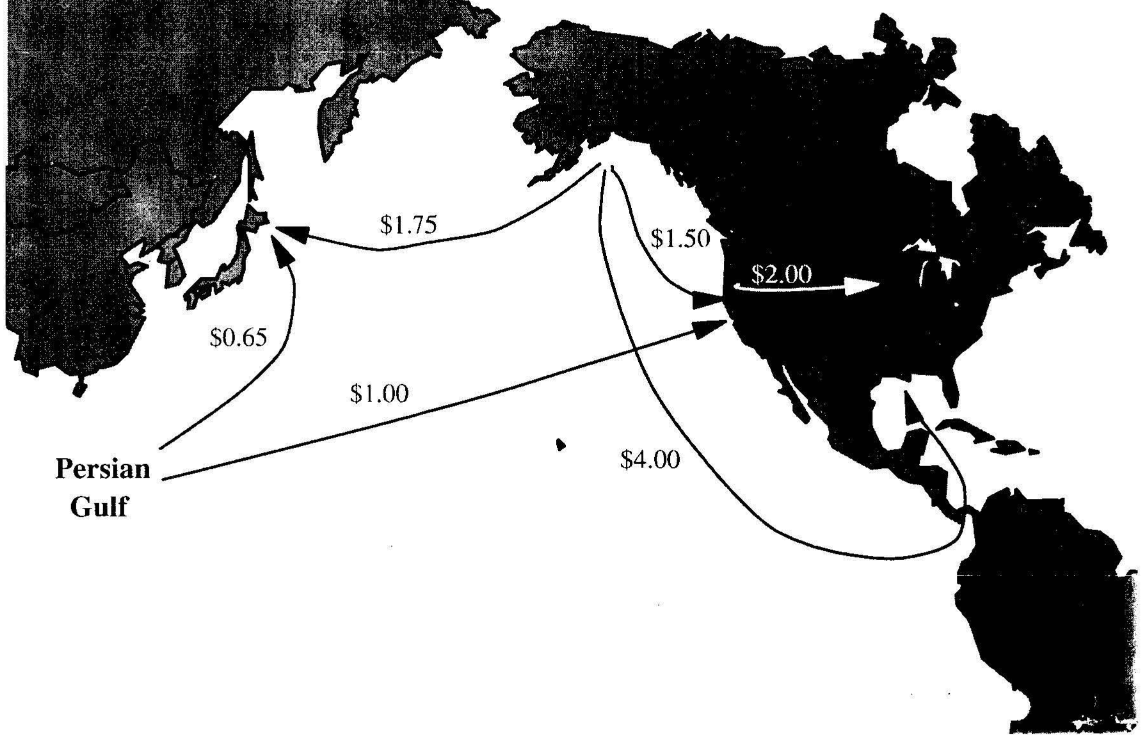
It is the view of the Knowles administration, Mr. Chairman, that the ban on the export of Alaskan oil has unnecessary, unfair, and unintended consequences. It certainly has long outlived the reasons it was put in place.

Once again, Mr. Chairman, thank you for the opportunity to speak to the Committee on this bill.

[1] If it costs $1.50 a barrel to ship from Valdez to the West Coast, and $4 to ship from Valdez to the Gulf Coast, the ANS additional shipping cost to the Gulf is $2.50. Suppose Gulf Coast ANS prices are $15 per barrel. Then the value at Valdez is $15 less $4, or $11. If the Trans-Alaska Pipeline tariff is $3, the result is a wellhead value of $11 less $3, or $8. The additional transportation charge of $2.50 has reduced the wellhead value from $8 plus $2.50, or $10.50, to $8. This is a 24 percent reduction.

# Transportation Costs

($/barrel)



PREPARED STATEMENT

OF

MICHAEL SACCO
PRESIDENT
SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA
(AFL-CIO)

ON PRESERVING JOBS AND THE INDEPENDENT TANKER FLEET
BY AUTHORIZING ALASKAN OIL EXPORTS IN U.S.-FLAG VESSELS

BEFORE

THE COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

May 9, 1995

Mr. Chairman and Members of the Committee:

On behalf of the Seafarers International Union of North America (AFL-CIO), I urge you to enact H.R. 70 to authorize exports of Alaskan North Slope crude oil carried in American-flag tankers. This vital legislation will help preserve the independent tanker fleet--at no cost to American taxpayers--and save the jobs of merchant mariners that otherwise will be lost with declining Alaskan oil production. We deeply appreciate the Administration's support for the proposed legislation. We look forward to working with you and the Administration to enact it as quickly as possible. By doing so promptly, you will provide hope to our people and reassure them that they will have a future in the maritime industry. And you will advance the overall energy and national security interest of our country.

Mr. Chairman, prior to last year we had opposed Alaskan oil exports because the oil would have been carried in foreign-flag vessels. Had they been authorized, those exports would have led to the destruction of the nation's independent tanker fleet and caused a catastrophic loss of jobs for our members. Our nation would have suffered the loss of a militarily useful fleet essential to national defense.

Last year, however, we began to see how a law passed in 1973 was beginning to have unintended consequences. After extensive discussions with BP America and our contracted ship operators, we began to appreciate how declining North Slope production would prematurely lead to the scrapping of vessels in the Alaskan oil trade. The fleet had already begun to shrink as a result of decreased movements of oil to the Gulf Coast and other market factors. Clearly, with the North Slope fields entering a phase of sustained decline, something had to be done to preserve the fleet and the jobs of our members.

In the spirit of compromise, we agreed to join with BP America, small independent oil producers, independent tanker owners, and others in support of legislation permitting Alaskan oil exports in American-flag tankers. And so, perhaps surprisingly, we appear before you today with Alaskan oil export proponents to explain why we believe enactment of the proposed legislation would be in the national interest.

Mr. Chairman, as you know from your many years of service on the Merchant Marine and Fisheries Committee, our industry is in the midst of a depression. Over the years, I and other maritime leaders have testified before many committees, hoping that Members would come to appreciate how America's economy and national security depend on a strong merchant marine. Since this is my first appearance before your Committee, I hope you will allow me a moment to talk about my industry and the proud men and women who continue to serve their country as merchant mariners on vessels proudly flying the American flag.

For too long, an essential national resource has been threatened with extinction. Not until the United States and its allies commenced Operation Desert Shield/Desert Storm did a new generation of Members of Congress and the American public witness how vital commercial sealift is to projecting force in a hostile world and sustaining our troops in battle. Our experience in the Persian Gulf highlighted the strength of the U.S.-flag commercial fleet. But it also showed its weakness--a shortage of vessels to carry out the responsibilities imposed on it during a national emergency. As important, our nation learned we lack the skilled crews needed to man all the ships necessary to provide sealift during emergencies.

To help preserve the merchant fleet, we worked with the Administration to enact maritime reform legislation last year. Notwithstanding overwhelming, bipartisan support in the House, that legislation died in the Senate. We continue to hope Congress will enact maritime revitalization this year. But I am not here today to talk about that bill. Rather, I appear before you today to urge you to enact Alaskan oil export legislation that will help promote our national security and better prepare the nation for future international conflicts by preserving the independent tanker fleet and the men and women who crew the vessels.

At present, much of independent tanker fleet is in lay-up or headed for the scrap heap. In contrast, in the mid-1980s my union alone crewed eighteen vessels. Unfortunately, when tankers sit idle, so do our men and women. Job opportunities in other sectors of the industry are no longer available. Once converted to razor blades, tankers no longer provide any employment opportunities--for our members or laborers in U.S. ship repair yards either. Once destroyed, the vessels and their crews also will no longer be available in time of national emergency.

With Alaskan oil exports authorized, however, these vessels will have employment opportunities not available today. Moreover, by improving production economics, exports will extend the life of the TAPS pipeline and the jobs of those men and women who keep it in operation. That is why so many members of the labor movement support the proposed legislation.

After making our own careful analysis, we concluded that enactment of the proposed legislation would preserve employment opportunities. We were gratified that the Department of Energy similarly concluded that jobs would be saved if exports are carried in American-flag vessels as a result of a more efficient redeployment of the fleet and increased energy production in Alaska.

As an additional benefit, exports will generate increased federal and state revenues. The Department of Energy projected a federal revenue increase of $99-180 million (depending on future prices) from higher royalty receipts and receipts from oil produced on federal land over the balance of the decade. The Congressional Budget Office also has scored the proposed legislation as a net revenue raiser of $55-59 million over five years. Neither of these estimates includes the increased tax revenues likely to flow from the jobs being created or the revenue losses being avoided. In contrast, when earlier projections were made in the early 1980s, substantial losses were anticipated, principally from the destruction of the independent American-flag fleet. By saving the fleet, you will avoid the revenues lost from premature vessel retirements.

ANS exports will not endanger America's energy security. In fact, by increasing energy production, the new policy can help promote our overall energy security. The world oil situation has changed so fundamentally since the export restrictions were first enacted in 1973 that they no longer serve the purposes originally intended. U.S. oil use has declined, rather than risen to the levels projected in the early 1980s, because the U.S. economy has become much more efficient in its use of energy resources. Moreover, we now have 600 million barrels of oil in the Strategic Petroleum Reserve, plus the Navy's reserves at Elk Hills, California. The OPEC cartel no longer dominates the world oil market. With its collapse in power, prices have fallen to their lowest level ever relative to other consumer products.

ANS exports can create jobs without harming U.S. consumers. In 1984, the last time the export issue was considered by the Congress, we were of the impression that ANS exports could hurt consumers. But market factors have changed fundamentally. Thus, the Department of Energy concluded in its study that consumers now receive no benefit from the ban and would experience minimal or no price changes if it were lifted. The Department said consumers will not be burdened with higher gasoline prices because independent refiners, who enjoy "the largest gross refiner margins in the world," will not be able to pass on crude price increases.

Mr. Chairman, in closing we wish to emphasize that we believe the historic purposes for reserving ANS production for domestic consumption have been substantially served. After careful consideration of the present situation, we believe the conditions that precipitated the enactment of the export restrictions two decades ago have changed sufficiently that the nation--and labor in particular--would be better served by a change in policy. By working with the Administration and your colleagues in the Senate, you can now advance important national objectives by permitting exports in U.S.-owned and U.S.-crewed vessels.

Mr. Chairman, we therefore implore your committee on behalf of our members to preserve jobs and our vital independent tanker fleet by moving H.R. 70 as quickly as possible this year. Together, we can enhance our national security.

**Testimony of**
**Mr. Jerry V. Hoffman**
**President and Chief Executive Officer**
**of Berry Petroleum Company**
**and**
**Past President of the**
**California Independent Petroleum Association**

**before the**

**United States House of Representatives**
**Committee on Resources**
**May 9, 1995**

Testimony of
Jerry V. Hoffman
President and Chief Executive Officer
Berry Petroleum Company
and
Past President of the
California Independent Petroleum Association

United States House of Representatives
Committee on Resources
May 9, 1995

Chairman Young, Congressmen, my name is Jerry Hoffman and I am the President and Chief Executive Officer of Berry Petroleum Company in Taft, California. I am also the Chairman of the Alaska North Slope Export Committee of the California Independent Petroleum Association ("CIPA"), a 500 member non-profit group which represents independent crude oil and natural gas producers and other energy related businesses in California. Berry Petroleum Company produces between 9,000 to 10,000 barrels per day of California heavy crude oil, or about 1% of the State's total production, and fairly represents a cross section of the California independent producers.

I am here today to address an important issue before you, the proposal to repeal the export ban on Alaska North Slope (ANS) crude oil. California independent oil producers, as well as independent oil producers throughout the Country, have long supported repealing this export ban. I am going to talk about the current condition of the California production industry and specifically, how it is being damaged by the West coast oversupply of crude oil and the artificially depressed price of West coast crude oil. I am going to cite the Carnoy and Department of Energy studies that conclude ANS export is good energy policy. I am also going to relate to you personal stories of how the ANS export ban is hurting my company.

The ban on the export of ANS was enacted 22 years ago during the oil embargo of the Arab-Israeli war of 1973 to protect the Country's domestic crude oil supply and reduce reliance on imports of foreign crude oil. While the measure may have been practical and necessary at that time, it has outlived its usefulness and become an onerous regulation. It is time for federal policy makers, such as yourselves, to overhaul this outdated and damaging regulation.

Let me explain the problem in a nutshell. The ban on the export of ANS crude oil forces the Country's #1 oil producing state, Alaska, to ship crude oil into the Country's #3 oil producing state, California, thereby creating an oversupply of crude oil in California that robs the California oil industry of a free market in which to sell its crude oil. Even though this Country imported approximately 50% of its crude needs in 1994, the ANS export ban causes an oversupply of crude oil on the West Coast which translates into depressed prices for indigenous California and Alaska crude oil. Because of the oversupply, excess crude oil must be shipped to other U.S. ports, primarily to the Gulf region, through either the All American Pipeline, trans-shipped through the Panama Canal or around Cape Horn, at a transportation cost of $1.50 to $2.00 more per barrel than to its natural marketplace in the Far East. The result is a lower crude oil netback price to Alaska and, more importantly to me, the California producer.

There have been numerous studies addressing lifting the ban on the export of ANS, including one commissioned by CIPA in December 1993 and prepared by Martin Carnoy, of Stanford University, and one completed in June 1994 by the U.S. Department of Energy. Each of these studies concluded that lifting the ban on ANS will benefit the United States, California and Alaska and, more specifically, that the studies found that California and Alaska crude prices would increase. The estimates of the increase vary, but are roughly in the neighborhood of $1.00-$2.00 per barrel. There is more than ample proof that increased crude oil prices in California will result in increased production, exploration and California jobs. For example, during the invasion of Kuwait in 1990, when crude oil prices increased, in four short months, the decline in California production halted and actually increased by 50,000 barrels per day. Furthermore, California has more proved undeveloped crude oil reserves than any other state in the lower 48. It is not a geological risk, an engineering or technological risk, but rather an economic risk that keeps these crude oil reserves from being developed and produced.

In 1992, the average price for heavy crude oil in California was approximately $13 per barrel. Berry Petroleum Company invested $4.6 million in the development of its 21-Z lease in the McKittrick field in Kern County, California, which we expected would produce approximately 1,000 barrels per day. Since that time, in 1993 and 1994, our average price has dropped to approximately $11.50 per barrel and consequently, we have abandoned this project as uneconomic and will not restore this production until we believe we will receive a higher price. We have other properties in the same situation.

California heavy oil production, by its very nature, requires high operating and capital costs to extract. In California, we are further burdened by higher than average regulatory costs. And, because of the oversupply of crude oil on the West Coast caused by the ANS export ban, our prices are depressed and well below prices in other parts of the Country. California producers are getting hit from both directions.

To further illustrate the impact this law is having on our Country, Berry Petroleum Company paid $7.4 million in Federal and State income taxes in 1990, approximately $3.6 million in 1991 and approximately $3.5 million in 1992. Partially due to the low oil prices caused by the export ban, in 1993 and 1994, Berry did not pay income taxes and in one of those years, actually filed for a refund. By lifting the ban on the export of ANS crude oil, we believe the price of our crude oil will increase by $1.00-$2.00 per barrel. Since Berry produces three and a half to four million barrels per year, this increase would result in additional cash flow to Berry, ranging from $3.5 million to $8 million per year. If Berry had additional capital of this magnitude, it would reinstate the McKittrick property that I just described and other properties. We would invest heavily in further exploration and production development in California which would result in increased production, increased federal, state and local taxes and, most importantly, increased jobs. Please remember, Berry Petroleum represents just 1% of the State's overall production.

A study conducted by the DOE in June 1994 clearly points to the benefits of lifting the ban of the export of ANS crude:

- Incremental production in Alaska and California could increase by 100,000 - 110,000 barrels per day by the end of the decade, thereby reducing our reliance on continually increasing foreign imports.

- Reserve additions in Alaska alone, could be as large as 200 to 400 million barrels of oil.

- Within a short period, the net increase in U.S. employment would be between 11,000 and 16,000 jobs and by the end of the decade, could be as many as 25,000 jobs.

- California returns from its share of federal royalties, state and local taxes would increase $180 million to $230 million from now to the year 2000.

- Federal receipts related to royalties and sales of Elk Hills oil production alone would total between $99 million and $180 million.

- No significantly negative environmental implications were found. In fact, exporting ANS crude would probably decrease crude oil tanker movement off the West Coast as a result of the expected increased production from the States of California and Alaska.

Opponents of lifting the ban on the export of ANS crude oil claim that it would result in increased petroleum products prices. This is simply not true. Gasoline prices are not dictated by the West Coast crude oil market, but rather the world crude oil market. Furthermore, there are no government prohibitions on the export or import of petroleum products as there is on crude oil.

Therefore, if gasoline prices were to increase abnormally in Los Angeles, for example, the world economic markets would quickly react and transport gasoline into this market to capture those abnormal profit margins and quickly drive prices back down to world market levels. This is further demonstrated by the fact that California crude prices are depressed and, as a result, California refinery margins are 31% higher in California than the average of the entire United States. Yet, the California consumer has never benefitted from these lower crude prices in the form of lower gasoline prices. The higher profit margin has been captured at the refinery and retail level. The California producer cannot continue to subsidize these abnormal profits for the downstream refining and retail segments of the California oil industry. In the last ten years, California has lost 35,000 energy industry jobs and 60% of the independent production companies have gone out of business.

There is widespread bipartisan local support for lifting the ban on the export of ANS; Governor Pete Wilson, Willie Brown, other California Assemblypersons and Senators and Counties, including my own Kern County, support lifting the ban. It is time for the United States of America to develop a strong national energy policy. Lifting the ban on the export of ANS crude oil is a first step. This action reduces our reliance upon foreign energy imports and strengthens our domestic oil and gas industry in both the states of California and Alaska. I urge you to consider the facts and the overwhelming benefits and approve legislation that would overturn this onerous ban and give California independent producers a free market to sell their crude oil.

Thank you for your time today.

PREPARED STATEMENT

OF

LINDA L. ADAMANY
SENIOR VICE PRESIDENT
BP OIL SHIPPING COMPANY, USA

ON THE BENEFITS OF ALASKAN OIL EXPORTS
CARRIED IN U.S.-FLAG VESSELS

BEFORE

THE COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

May 9, 1995

Mr. Chairman and Members of the Committee:

On behalf of my company, our 16,000 employees, and the men and women who crew the vessels we employ to transport Alaskan North Slope crude oil, I am pleased to appear before you today. Though few could have imagined it only a year ago, BP America, the maritime industry, and independent producers stand united in support of your bill, Mr. Chairman, that would authorize exports of ANS crude oil on American-flag vessels manned by U.S. crews. We urge Congress to enact H.R. 70 as quickly as possible to spur additional energy production, to help preserve the independent tanker fleet, to create jobs directly and indirectly linked to oil industry investment in Alaska, California, and other Lower 48 states, and to increase federal and state revenues.

Mr. Chairman, as you and other members of the Committee know, we have long supported lifting the Alaskan oil export restrictions. We have long recognized, as well, that the domestic maritime industry has provided a valuable service to our company. Until last year, however, we had not perceived how our two industries could work together to achieve a common legislative objective. In recognition of our mutual interests, we agreed to support legislation we firmly believe will help spur additional energy production and hence extend not only the life of the North Slope fields, but also the life of the domestic merchant marine.

At the outset, we wish to emphasize as well how pleased we are that the Administration supports ANS exports carried in U.S.-flag vessels with American crews. We are committed to working with the Administration to ensure that exports are authorized pursuant to an appropriate licensing mechanism and only after completion of an appropriate assessment of the environmental implications of proposed exports.

To help you understand our shared view of the future, I think it would be helpful to discuss how the world energy situation has changed in the two decades since Congress first imposed the Alaskan oil export restrictions.

**TAPS.** In adopting the Trans-Alaska Pipeline Authorization Act in 1973, the 93rd Congress provided that ANS crude oil could be exported if the President determined exports were in the national interest, would not diminish the total quantity or quality of crude oil available to the country, and were done in conformance with the Export Administration Act of 1969. In other words, contrary to what export opponents often claim, Congress did not in fact ban exports in 1973. As the legislative history demonstrates, Congress understood in 1973, as we hope it does now, that ANS exports could benefit the nation. We are now asking you to determine, as the 93rd Congress contemplated, that ANS exports would be in the national interest. In making a fresh judgment on the merits, we believe you will conclude that ANS exports carried in U.S.-flag vessels manned by U.S. crews would promote the national interest.

**North Slope Production.** Since Congress authorized construction of the TAPS pipeline, the history of North Slope production has been one of remarkable achievement. In the past two decades, the oil industry has invested more than $50 billion (in today's dollars) in realizing the North Slope's hydrocarbon potential. As a result of our direct employment and purchases of products and services, we have generated hundreds of thousands of jobs in all 50 states.

Through a combination of technical advances and these massive capital expenditures, we have nearly doubled the amount of crude oil we initially expected to recover. In 1977, we anticipated recovering less than 10 billion barrels of crude oil from a single North Slope field. Since then, with production underway at over a half dozen fields, we have produced 10 billion barrels and have a similar amount in booked and likely reserves. We postponed Prudhoe Bay's inevitable decline by nearly four years. Today, based on the State of Alaska's forecasts, the North Slope is producing some 600,000 barrels more per day than projected less than a decade ago. These achievements are particularly remarkable given the inherent competitive disadvantages of the North Slope--disadvantages stemming primarily from harsh climatic conditions, remoteness, and federal restrictions on access to world crude oil markets imposed by the ANS export ban. BP America and our 16,000 employees are extremely proud to now be the largest producer of crude oil in the United States.

**Energy Situation in 1970s.** Throughout this period in which we were making substantial investments in Alaska to increase domestic production, the United States faced energy supply threats. In 1973, for example, Middle East countries jointly boycotted the United States at the outbreak of the war. Many of these nations, then being sustained militarily by the Soviet

Union, kept our allies in check by threatening supply interruptions.

Thereafter, OPEC was able to ratchet up prices repeatedly, as demand for oil seemed essentially inelastic. The world supply and demand balance was seen as tightening rapidly, with energy demand appearing to grow geometrically. U.S. demand for oil, for example, was growing steadily, with imports expected to reach 13-14 million barrels per day (b/d) or 54% of consumption by 1990. Moreover, government forecasters were predicting $54 per barrel crude oil by 1995.

Concerned about gasoline lines and threats to our security, the Alaskan oil export restrictions were further tightened in 1979 following the second major oil shock. Much has changed since then.

**Energy Situation Today.** Conditions have improved markedly. The enormously flexible U.S. economy reacted to the anticipated shortage by rapid gains in energy efficiency. By 1990, for example, oil demand was less than 65% of the amount forecast in 1978. By 1992, the ratio of energy expenditure to GNP was only 82% of the 1980 level. And net imports of oil actually declined between 1978 and 1993, from 7.84 million b/d to 7.55 million b/d (in contrast to the former expectation of 13-14 million b/d by 1990). Not until last year did imports surpass the previous all-time high set in 1977. According to the American Petroleum Institute, this record was set not because demand had increased, but rather "as a result of the continuing fall in U.S. crude oil production . . . ."

While demand pressure moderated, world energy supplies greatly expanded and diversified. In 1978, for example, world crude reserves amounted to 649 billion barrels; by 1993 they had reached 1,009 billion barrels, 55% greater. Scientific and technical advances in exploration and production are daily opening and developing new sources worldwide.

Prices naturally have reflected these developments in demand and supply. The "oil shock" of the 1980s was a drop below $10 per barrel in 1986, while a sharp drop last year has only recently been restored. Even though Iraq is still under international boycott and the United States does not buy any crude from either Iran or Libya, the Washington Post reported in 1994 that "gasoline has never been cheaper than it has been this year, compared with what people pay for other goods and services."

The United States also maintains sources of protection against sudden shortages. The Strategic Petroleum Reserve, for example, contains approximately 600 million barrels. The Navy maintains its reserves at Elk Hills, California. Moreover, sophisticated futures markets now exist, which allow forward buyers to hedge prices well ahead.

Further, a pronounced shift has been made on the import side toward more reliable sources of supply. Even though the volume of imports from the Middle East has risen in recent years, we still import absolutely and relatively less than we did in 1978. Within the Middle East itself, Iran, Iraq, and Libya no longer provide the United States with any crude oil. Imports from Europe and the Western Hemisphere now make up more than half of all imports, with Canada and Mexico among our largest suppliers, providing us with nearly 2 million barrels of crude oil per day.

Politically, the situation has improved, as well. The collapse of the Soviet Union has eliminated the superpower confrontation in the Middle East and Africa that overshadowed earlier oil conflicts. Moreover, the movement toward peace between Israel and its neighbors has reduced a constant source of friction that threatened world oil supplies.

In short, the historic purposes for reserving ANS production for domestic consumption have been substantially served, and no longer appear operative.

**Energy Policy for the 1990s.** Today, the future of this critical domestic resource is in double jeopardy. Production is in decline and margins that are the lifeblood of the ongoing investments that sustain production are being squeezed as never before by upward pressure on North Slope costs.

Along with our industry partners, we have done everything we can to pare costs, to do more with less. We have actually reduced per-barrel operating costs in an atmosphere of declining production without sacrificing safety or environmental performance.

However, with the current export restrictions in place, we cannot sell our crude in a competitive market. Because ANS production is surplus to West Coast demand, we are forced to accept prices for our crude oil at below-world market parities. In recent years, we have seen our netback in Alaska squeezed to the point that making additional investments cannot easily be justified.

Much of the North Slope production we currently project for the year 2000 and beyond depends on investments yet to be made. These investments could be jeopardized if artificially depressed prices persist. More than ever before, with the end of the Cold War and so much of the world competing for billions in energy investment dollars, returns on investment have become the prime consideration as companies allocate increasingly scarce capital resources.

The competitiveness of our investments in Alaska is not only important for our company and the rest of the industry, but also is vitally important to the federal government and the State of Alaska, if for no other reason than to preserve the hundreds of millions of dollars in revenue produced annually by those investments. Moreover, for a nation of consumers of petroleum products, it is essential that we find ways to spur additional energy production. We will do everything we can to make North Slope investments competitive, but to justify significant additional capital expenditures we need your help.

As the domestic maritime industry and maritime labor, in particular, have come to appreciate, their future depends in part on our ability to extend the life of the North Slope fields. By enacting legislation to remove the current export restrictions, you can help create the market conditions that will raise the netback in Alaska and generate the incremental returns that ultimately will stimulate higher production for the benefit of all Americans. And by insisting on the use of American-flag vessels manned by U.S. crews to carry the oil, you can help preserve a domestic merchant marine vital to national security. Moreover, as the Department of Energy found and independent producers will testify, you can spur additional heavy crude oil production in California without hurting consumers at the pump.

**Conclusion.** Mr. Chairman, we were heartened that you and Representatives Thomas, Rohrabacher, Doolittle, Dooley, Gallegly, and Archer joined on the opening day of the 104th Congress to introduce legislation that would permit Alaskan oil to be exported in U.S.-flag vessels manned by U.S. crews. Through the leadership of Senators Murkowski and Stevens, bipartisan legislation was introduced in the Senate as well on January 4 and has since been overwhelmingly reported by the Energy and Natural Resources Committee. As of today, 70 Members have cosponsored your companion House measure. Both Houses thus now have an historic opportunity to begin developing a rational energy policy for the balance of the 1990s.

Mr. Chairman, after looking at the export issue with a fresh perspective, we and the maritime industry concluded that we could enhance our nation's energy and national security by working together. We encourage Congress to now do so as well. As partners, we can spur energy production, preserve the domestic merchant marine, create jobs, and raise state and federal revenues. We urge the Committee to report out H.R. 70 as quickly as possible to help us realize our shared objectives and to enhance our nation's energy and national security.

91-746 0 - 95 - 4

National Center for Policy Analysis

For Release On Delivery

**Statement**
**on**

**Permitting Export of**
**Domestically-Produced Crude Oil**
**(Alaska Oil Export Ban)**

**by**

**Kent Jeffreys**
**Senior Fellow**
**National Center for Policy Analysis**

**Before**
**the**
**Committee on Resources**
**U.S. House of Representatives**

**The Honorable Don Young, Chairman**

**May 9, 1995**

Dallas Headquarters: 12655 N. Central Expy., Suite 720 • Dallas, TX 75243-1739 • 214-386-6272 • Fax: 214-386-0924
Washington Office: 727 15th St. N.W., 5th Floor • Washington, DC 20005 • 202-628-6671 • Fax 202-628-6474

My name is Kent Jeffreys and I am a Senior Fellow with the National Center for Policy Analysis which is headquartered in Dallas, Texas. The NCPA is a nonprofit, nonpartisan public policy organization. I am based in NCPA's Washington, DC office. For the past eight years I have worked in Washington on a range of environmental and energy policy issues for several public policy organizations. These groups, and many others around the country, are in complete agreement: the Alaskan Oil Export ban should be lifted.

Alaskan Oil Export Ban : The Impact on Jobs

When passed in 1973, the oil export ban was justified as a means to preserve "jobs in the US" and "keep our oil". Both justifications are flawed, as time has demonstrated. More jobs have been lost (in oil related US industries) due to the oil export ban than have been created within the coastal shipping sector. This is due to the fact that the ban results in higher costs, and lower net revenues, for Alaskan oil. Thus, there is less money available for hiring oil industry workers.

In addition, because of the nature of refineries, Alaskan oil is less desirable on the West Coast (where there is an ample supply of heavier crudes) than it is in the East Asian area. This has depressed the price paid for the crude, even in California oil fields, because of the supply imbalance. The result is lower production and employment on the West Coast as well as Alaska. Finally, the ban results in less oil field equipment being ordered, again due to the economic dampening effects within the industry. This causes job losses across the nation.

Non-Job Impacts of the Ban

In a new study by Samuel A. Van Vactor (president of Economic Insight, Inc., Portland, Oregon) for the Cato Institute, it was estimated that Alaskan Oil can be shipped to Japan and Korea for about 50 cents per barrel. Shipping it to West Coast results in costs (in labor and lowered prices) of from $1 to $4 per barrel. This is on top of the $3.50 per barrel that it costs to move oil through the Trans-Alaskan Pipeline to the port of Valdez. Obviously, any additional costs loaded onto Alaskan oil production make it less attractive in the world oil market. Mr. Van Vactor estimates that the net return on a barrel of Alaskan oil is from $5 to $8 lower than world oil market averages. This is before calculating the impact of state and federal taxes and royalty payments.

Furthermore, Mr. Van Vactor estimates that several billion barrels of potential production on Alaska's North Slope might never be produced if these depressed prices imposed by the oil import ban remain in place. Alaska is already a high-cost oil region. It is counterproductive to raise the costs even higher through anachronistic trade policies.

The U.S. runs a substantial trade deficit with Japan, yet refuses to sell it a product worth billions of dollars. This puts downward pressure on the dollar in international exchange rates. It also discourages Japanese and Korean investment in the oil and natural gas resources of Alaska. As with almost all forms of trade protectionism, the oil export ban hurts America more than it helps us.

And untapped Alaskan oil reserves are likely to be vast. Even if the Arctic National Wildlife Refuge "1002" region remains off limits, several billion barrels of known or potentially economically recoverable oil exist in the geological basin surrounding the supergiant Prudhoe Bay field. Several large deposits are currently marginal from an economic perspective. For example, the West Sak field would be one of the largest producing fields in American history -- if it were in Texas. In fact, in terms of oil-in-place, West Sak easily rivals and may even exceed Prudhoe Bay. Yet because of Alaska's extreme climate and environmental concerns and the West Sak crude's chemical and physical traits, producing the field will be even more costly than other fields on the North Slope. Thus, any federal law which serves to increase the costs of producing West Sak (and other North Slope fields) makes it likely that billions of barrels of oil will simply remain in the ground forever.

Alaskan Oil Has Provided Enormous Benefits

Through 1993, total development costs for Alaskan oil projects (Cook Inlet, Trans-Alaska Pipeline, and the North Slope) were approximately $67 billion (in 1993 dollars). The result has been to add about 16 billion barrels of oil to domestic US production or reserves. However, world oil market prices have fallen in recent years and many development projects have been canceled or put on hold.

The potential for additional reserves being discovered and produced on the North Slope remains high. But in an uncertain economic climate, every penny per barrel is important. Federal rules should not block vital economic development. By effectively raising the cost of Alaskan oil, the export ban does precisely that.

## Other Negative Impacts of the Oil Export Ban

The oil export ban results in substantial U.S. oil refining and product distribution dislocation. (Alaskan oil is not light enough to offset heavy California crudes, so a poor product mix -- for the California market -- is the result). Recent economic analysis indicates that thousands of domestic oil industry jobs have been destroyed by the oil export ban (by suppressing the price for crude oil in California and Alaska).

Any estimates of future oil production from the North Slope are speculative, but if additional reserves are found, the West Coast might have a hard time absorbing them. In the past, the excess supply on the West Coast was transshipped to the U.S. Gulf Coast, at an additional cost of perhaps $3 per barrel. Repeating this scenario in the future would not provide any net benefits to the U.S. economy.

## The Oil Export Ban is Unfair to Alaska

The Oil Export Ban targets a single state's oil production despite the fact that two dozen other states have oil and gas production. This was part of a political compromise brokered at a time when world energy markets were far different from today's. Whatever the earlier justifications for this ban, they have faded with time and should no longer control the debate. Although many states suffer a negative economic impact from this ban, North Slope oil production is crucial to Alaska's economy. Thus, a single state is asked to bear the brunt of the negative impact of this counterproductive policy. This is unfair.

## Non-Stakeholder Viewpoint

It stands to reason that the direct stakeholders in this issue -- the oil companies, transporters and refiners -- would have strong opinions one way or the other. However, in the opinions of public policy experts with whom I have talked over the years, there is unanimity. The major conservative, libertarian, and free market public policy groups are in agreement on this point: the oil export ban is economically harmful and should be repealed.

In conclusion:

- The Alaskan Oil Export Ban depresses the price received for all Alaskan oil and much of California's production as well. This results in lowered total production from these states.

- The Alaskan Oil Export Ban hinders economic growth in Alaska in general and in several sectors of the oil industry nationwide. The ban costs the U.S. economy thousands of jobs.

- The Alaskan Oil Export Ban blocks a major U.S. export item to East Asian trading partners. This makes no sense in light of current U.S. pressures on these nations to open their domestic markets to our exports.

I thank the Chairman and the Committee for this opportunity to address such an important issue, and I look forward to your questions.

# STATEMENT OF PETER A. SUTTON
# VICE PRESIDENT
# TOSCO CORPORATION

## BEFORE THE

## HOUSE COMMITTEE ON RESOURCES

## HEARING ON H.R. 70
## EXPORT OF ALASKA OIL
## MAY 9, 1995

---

My name is Peter A. Sutton. I am Vice President of Tosco Corporation and am responsible for Tosco's West Coast supply and marketing activities. I appreciate the opportunity to appear today in opposition to H.R. 70, which would remove the long-standing restrictions against exportation of Alaskan North Slope ("ANS") crude oil.

**I. WEST COAST REFINERS RELY HEAVILY ON ANS OIL SUPPLIES.**

ANS oil accounts for about half of the crude oil used in California and over 80 percent of the crude oil used in the State of Washington. Foreign crude oil imported to replace exported ANS oil would be higher-priced, from less secure and more distant sources, and less suitable for processing in West Coast refineries. Existing refining configurations, strict West Coast gasoline specifications, and logistical constraints result in limited ability to substitute foreign crude oils.

Tosco is the largest independent refiner-purchaser of ANS crude oil. Our California refinery in the San Francisco Bay area and our Washington refinery in the Puget Sound area process a total of approximately 180,000 barrels per day of ANS crude oil, which constitutes more than 10 percent of total ANS production. ANS crude oil supplies more than 70 percent of our feedstock requirements on the West Coast.

Our company is a leading supplier to independent gasoline marketers and jobbers, which provide consumers with their only competitive alternative to the major integrated oil companies. A secure source of domestic, short-haul, competitively-priced ANS crude oil is essential to maintaining the competitive viability of Tosco and its independent customers.

Tosco's refineries include equipment which efficiently converts ANS crude oil into gasoline and other light products demanded by the West Coast market. Our refining equipment was installed at considerable expense in reliance on the continued availability of ANS oil. Any loss of supply or increase in the relative cost of ANS oil would increase Tosco's crude oil acquisition cost and reduce our operating efficiency.

Since 1991, production of ANS oil has declined from 1.8 million barrels per day to 1.6 million barrels per day. The State of Alaska forecasts that ANS production will decline further to approximately 1.3 million barrels per day by 1998. Thus, within three years, the West Coast will be a crude oil-deficient region, even without exports of ANS oil.

## II. ALLOWING EXPORTS WILL INCREASE THE ABILITY OF BRITISH PETROLEUM TO MANAGE THE SUPPLY AND PRICE OF ANS OIL.

British Petroleum produces approximately 800,000 barrels per day of ANS oil, which is roughly one-half of total ANS production. Because the other ANS producers generally process their ANS oil in their own refineries, British Petroleum is the sole spot seller of ANS oil to independent refiners. By controlling the volume of oil delivered to the West Coast and Gulf Coast markets, British Petroleum can effectively control the supply of ANS on the West Coast. This gives British Petroleum considerable market power over the price of ANS oil.

Since 1991, the price of ANS oil has increased by almost $3.00 per barrel relative to the world benchmark price of West Texas Intermediate ("WTI") crude oil. (See Attachment 1.) The result is that ANS oil is currently selling on the West Coast at a price which is effectively at world market parity.

However, if Congress allows unrestricted exports of ANS oil, the price will be bid up above world price parity because some refiners cannot readily import substitute foreign oil. These refiners lack deep water terminal facilities and storage needed to accommodate large tankers and would have to use more costly and environmentally risky lightering operations. Furthermore, they may be unable to procure foreign crude oil which is comparable to ANS oil and suitable for their refinery processes.

In light of these costs associated with importing foreign oil, British Petroleum would be able to extract a premium for ANS oil above world price parity. Thus, legislation to allow exports of ANS crude oil would simply strengthen the ability of a major foreign company to exercise its considerable market power over the supply and pricing of ANS oil in the West Coast market at the expense of independent refiners and ultimately consumers on the West Coast.

**III. ALLOWING ANS OIL EXPORTS WOULD THREATEN FAMILY-WAGE MANUFACTURING JOBS IN THE DOMESTIC REFINING INDUSTRY.**

Before addressing the highly speculative and unfounded claims that ANS oil exports would increase employment in Alaska and California, I want to emphasize that existing family-wage manufacturing jobs are being lost today in the West Coast refining industry. In California alone, refining employment has declined from 23,000 in 1990 to less than 19,000 in 1994.

The increased price of ANS oil relative to world prices has been a major factor in the dramatic decline of the West Coast refining margins. In fact, gross refining margins on the West Coast have decreased by about $3.00 per barrel since 1991, which is roughly the same as the increase in the price of ANS oil. (See Attachment 2.) West Coast refining margins recently fell to their lowest point in 10 years. A further increase in the relative price of ANS oil resulting from exports would only worsen refining margins, leading to additional plant closures and lost jobs.

At Tosco, our management has been forced to review all phases of our operation. Some of the measures taken have caused us to reduce personnel levels substantially in California, where Tosco employs 1,000 people. If Tosco is forced to absorb a further increase in the price of ANS oil, we may also face the decision whether or not to close one or both of our West Coast refineries, which would mean the loss of hundreds of well-paid manufacturing jobs.

**IV. ALLOWING EXPORTS OF ANS OIL WILL NOT INCREASE OIL PRODUCTION OR EMPLOYMENT IN ALASKA.**

The forecasts by the Department of Energy ("DOE") that allowing exports of ANS oil will lead to increased oil production and employment in Alaska are based on the totally unrealistic assumption that the ANS producers will invest 100 percent of their increased revenue in the development of Alaska reserves. This assumption is contrary to the well-known investment strategies of the ANS producing companies to shift from domestic to foreign exploration and development.

Even the DOE in its study acknowledges that the ANS producers are pursuing a strategy of investment in foreign prospects, where the financial returns are thought to be more attractive. This prevailing strategy is illustrated by the attached *Wall Street Journal* article of April 24, 1995, which reports that ARCO is looking overseas to replace its declining ANS production. The article states that ARCO is making especially deep cuts in its capital expenditures in Alaska. Only about 12 percent of ARCO's $1.2 billion exploration budget appears to be earmarked for Alaska. (See Attachment 3.)

The truth is that little if any of the increased revenue derived from ANS exports is likely to be invested in Alaska, making illusory the production and employment gains forecast by DOE. Indeed, the DOE study states that British Petroleum declined to commit itself to any specific amount of reinvestment in Alaska. In light of recent actions by the ANS producers, the most likely scenario is that British Petroleum would export the increased revenue resulting from any export of ANS oil.

In any event, it is not likely that an ANS oil price increase in the range of $0.50 to $1.50 would stimulate much, if any, increase in investment or production. Despite a $3.00 increase in the price of ANS oil relative to the benchmark price of WTI since 1991, the ANS producers have continued to cut their budgets in Alaska and production has declined by 200,000 barrels. This history does not suggest that a more modest price increase would have any significant effect on investment or production.

## V. ALLOWING EXPORTS OF ANS OIL WILL NOT INCREASE OIL PRODUCTION OR EMPLOYMENT IN CALIFORNIA AND WILL ONLY HARM OTHER WESTERN STATES.

The claims by DOE of increased oil production and employment in California resulting from ANS oil exports depend on the assumption that the price of California oil will track any increase in the price of ANS oil. Since this assumption is not valid, the production and employment gains forecast by DOE will not be realized in California.

Tosco is also the leading independent purchaser and refiner of heavy crude oil produced in California. Our San Francisco Bay refinery processes up to 65,000 barrels per day of heavy California crude oil, which is more than 12 percent of total heavy California oil production.

Based on our experience as a large user of both ANS oil and heavy California oil, Tosco can assure this Committee that removal of the ANS export ban will not result in the increased oilfield investment, production, or employment in California claimed by the advocates of ANS exports. The price of heavy California crude oil is at world parity and is driven by the price of WTI crude oil, foreign heavy crude oil prices, the export fuel oil market, and only marginally by the price of ANS oil.

The low quality of heavy California oil makes it difficult to refine, and it is simply not a substitute for ANS crude oil. The highest valued market for heavy California oil is provided by the complex and efficient refineries on the West Coast, where refiners have invested hundreds of millions of dollars in processing hardware to be able to handle this low-quality crude oil and maximize the yield of gasoline and other light petroleum products.

These refineries are already operating at or near their capacity to process heavy California oil into gasoline and diesel.

Although California heavy crude oil can be legally exported, only about one percent of heavy California oil production has actua_ly been exported since exports were initially authorized more tha- .o years ago. This confirms that Tosco and other heavy oil ref.ners are paying California producers a world price for their oil.

.. if ANS oil exports could be expected to cause an increase _alifornia heavy oil prices, it is unlikely that an increase in the range of $1.00 per barrel would stimulate additional production. History indicates that the production and supply of California heavy oil is not price elastic. Since 1988, production of California heavy oil has declined steadily from 670,000 barrels per day to 560,000 barrels per day, despite a price increase of $4.00 per barrel relative to the price of WTI oil.

In other western states, the proposed export of ANS oil offers only decreased security of oil supply and increased prices for petroleum products. The states of Oregon, Washington, Hawaii, Arizona, and Nevada are all served by refineries which use ANS oil. For these states, export proponents make no claims of economic benefit to justify the higher cost of ANS oil.

**VI. H.R. 70 WOULD GIVE FOREIGN REFINERS A TRANSPORTATION COST ADVANTAGE OVER U.S. REFINERS.**

The proposed legislation would allow ANS oil to be exported for use by foreign refiners on vessels which are documented under U.S. law but not built in U.S. shipyards. This could include tankers built in low-cost subsidized foreign shipyards but registered in the United States.

Domestic refiners, on the other hand, must take delivery of ANS oil on higher-cost "Jones Act" tankers which are both registered in the United States and built in U.S. shipyards. The proposed preferential treatment of foreign refiners would give them a competitive transportation cost advantage of as much as 50¢ per barrel.

**VII. ALLOWING ANS OIL EXPORTS WOULD TRANSFER ENERGY SECURITY PROTECTION FROM THE UNITED STATES TO ASIAN COUNTRIES.**

Allowing exports of ANS oil would make the West Coast more vulnerable to oil supply disruptions by removing the security of a dedicated, short-haul source of domestic crude oil. The logistical value of this supply source was demonstrated in the aftermath of the Northridge earthquake when California refiners relied upon ANS oil to fill the shortfall in deliveries of light California oil caused by pipeline damage.

Diverting ANS oil to the export market would transfer U.S. energy security protection to Japan, Korea, and other Asian countries. This would reduce U.S. energy security at a time when oil imports have reached record levels and when the U.S. Commerce Department has recently found that oil imports pose a threat to national security.

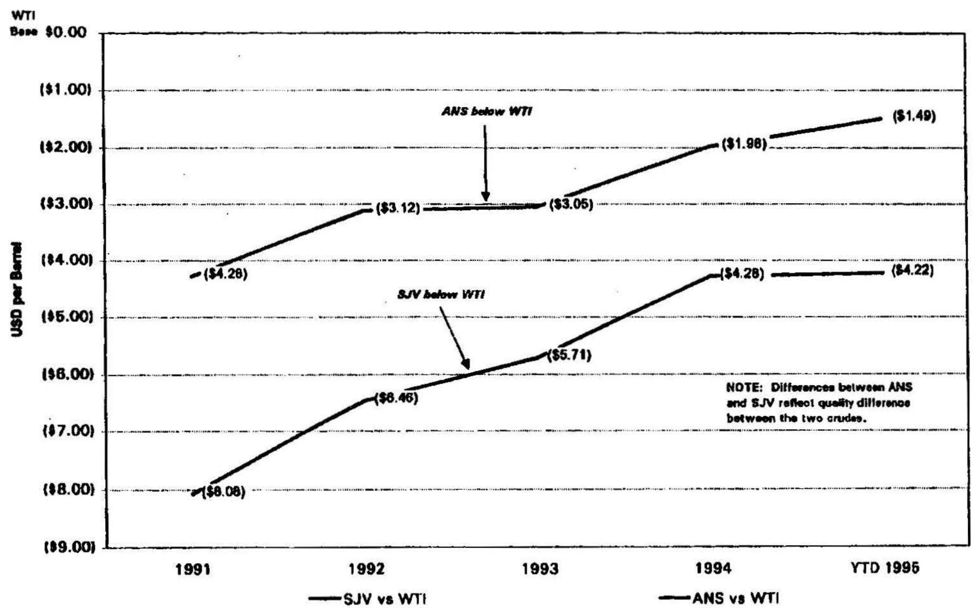
**CONCLUSION**

Allowing exports of ANS oil will only serve to strengthen British Petroleum's already substantial market power over the supply and price of ANS oil, will threaten the economic viability of independent refiners, will ultimately lead to higher prices for consumers on the West Coast, and will threaten family-wage refining jobs, all without offsetting benefits of increased oil production or employment in Alaska or California. The only beneficiaries will be the multi-national ANS producers and the State of Alaska, which will benefit at the expense of California and the other western states which rely on ANS oil.

H.R. 70 would provide foreign refiners with a transportation cost advantage over U.S. refiners in the acquisition of ANS oil, and it would transfer the energy security benefits of ANS oil supply from the United States to Asian countries. For all of these reasons, the proposed legislation should not be enacted and the long-standing restrictions on the export of ANS oil should be retained.

ATTACHMENT 1

**West Coast Alaskan North Slope Crude and California Heavy Crude Price Increase relative to World Oil Prices (West Texas Intermediate)**

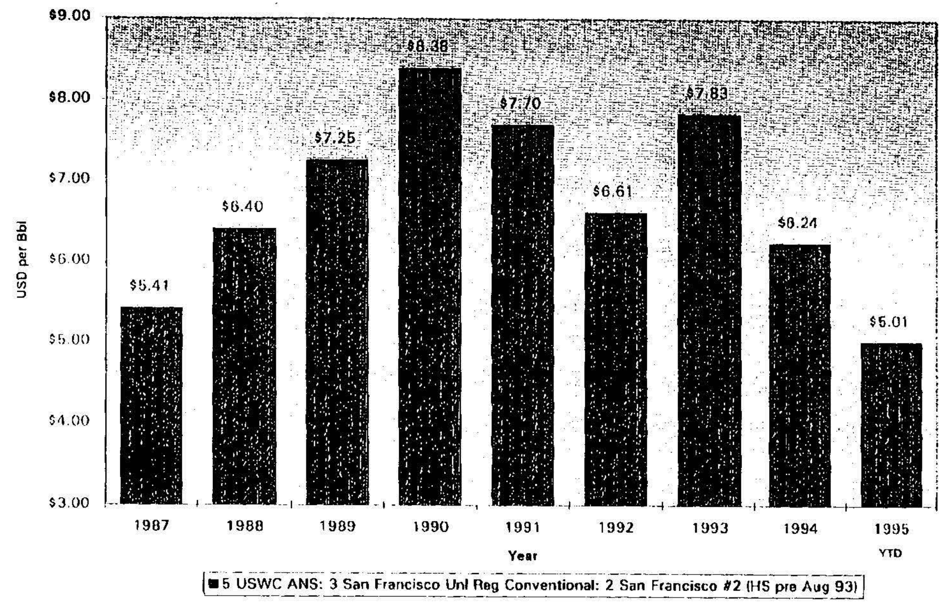



Source: 's

Note: Prices have not been adjusted for quality and location.

ATTACHMENT 2

## West Coast Typical Gross Refining Margin-San Francisco




Source: Platt's Marketscan to Apr 25, 1995

5 USWC ANS: 3 San Francisco Unl. Reg. (Conventional): 2 San Francisco Diesel

ATTACHMENT 3

April 24, 1995 **CORPORATE FOCUS**

# Arco Struggles to Find New Sources of Overseas Oil

## As Supply of Alaska Crude Dwindles, Company Ponders Foreign Strategy

By Andy Pasztor
And Benjamin A. Holden
*Staff Reporters of The Wall Street Journal*

LOS ANGELES—Marian Downey, head of Atlantic Richfield Co.'s international exploration unit, takes immense pride in pointing out that his operation has managed to double reserves and production over the last five years.

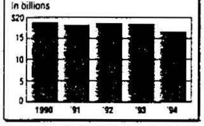
Even so, Mr. Downey acknowledges, Arco is merely "treading water" in its annual struggle to find new sources of oil to replace the crude it pumps out of the ground in Alaska, an area that has been the bedrock of the company's success since the 1970s.

Arco's overseas forays generally have led to natural-gas discoveries. But so far, the relatively small-scale efforts outside the U.S. fall short of providing a comprehensive, long-term strategy to compensate for the company's steadily shrinking supplies of crude from Alaska's North Slope.

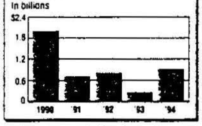
While competitors and Wall Street analysts continue to speculate about a potential bold stroke by Arco that could include a $2 billion-plus acquisition, a massive stock buyback program or some other ...atic move, the nation's sixth-largest ...leum company appears to be sticking primarily with lower-risk, comparatively low-payback exploration and development efforts.

### Arco by the Numbers

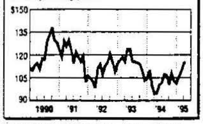
Revenue
In billions




Net Income
In billions




Stock Performance
Monthly closing prices




Company Fundamentals
Based on 1994 data

| | |
|---|---|
| Revenue (billions) | $16.55 |
| Net income (millions) | $919.0 |
| Assets (billions) | $24.63 |
| Long-term debt (billions) | $7.20 |
| Shareholders' equity (billions) | $6.28 |
| Employees | 23,200 |

Sources: Disclosure Inc., Baseline

### Focus on Smaller Fields

Management is cautiously hoarding cash and shunning megaprojects in the former Soviet Union and Third World countries favored by many of its industry brethren. Instead, Arco is concentrating mostly on exploring smaller fields, while it also tries to expand or redevelop mature production facilities in Algeria, Venezuela and elsewhere. Some of these projects, however, are still barely sketches on the drawing board.

Arco's overall foreign petroleum output was up about 2% in 1994. Roughly 90% of its overseas production currently comes from two places, Indonesia and the North Sea. And half of that total is natural gas.

Beyond a few areas, Arco is saying little about its strategic plans to identify and tap new sources of oil past the late 1990s.

"We've been making a lot of acquisitions," Mr. Downey says in his homespun Nebraska twang, "but they're litty-bitty rascals" in the $50 million or so range. Mr. Downey describes the company's strategy in baseball parlance, stressing that Arco is going for "singles and doubles."

"You can go broke waiting for home runs" similar to Alaska's oil-rich Prudhoe Bay, Mr. Downey says. "You can wait 50 years for another" find of that size, he adds. "I'm not prepared to wait that long."

Arco President and Chief Executive Mike R. Bowlin, agrees. "We've done a lot better" turning a profit acquiring limited reserves in the $50 million to $100 million range, he says, "than we have when we've gone out and made large acquisitions." For now, Mr. Bowlin argues, Arco can afford to play a waiting game even if such a strategy doesn't fully replace depleted reserves.

### Strategic Crossroads

But time may be running out. Mr. Bowlin, who formerly headed Arco's overseas operations, has talked about slowly shifting the company's domestic focus to foreign investments. As he prepares to assume the mantle this summer from retiring Chairman Lodwrick M. Cook, the company's conservative approach appears to be at a crossroads. Within the next year or two, according to many analysts and industry executives, Arco's management is likely to have no choice except to finally try swinging for the fences.

"I certainly don't want to see them plunge into something just to pacify Wall Street," says Eugene Nowak of Dean Witter Reynolds Inc. But Arco "probably will make a significant acquisition over the next few years" for as much as $3 billion to lock in badly needed reserves, Mr. Nowak predicts.

"Investors would like to see an international acquisition more than a domestic one," says Thomas R. Driscoll, an analyst who follows the company for Salomon Brothers Inc. "They don't have to spend their [excess cash] on a buyback."

### Work Force Cutbacks

Through this period of transition, Wall Street has continued to look favorably on Arco, which in 1994 earned $919 million, or $5.63 a share, on revenue of $16.6 billion. In 1993, the company earned $269 million, or $1.66 a share, on $18.5 billion in revenue. The 1993 results include a $450 million charge stemming from the reorganization of domestic oil and gas operations. In New York Stock Exchange composite trading Friday, Arco shares were up 25 cents at $115.625, near the 52-week high of $118.

Along with the rest of the industry, Arco already has weathered a series of personnel cutbacks and reorganizations, slashing its work force by some 13% and reducing costs by $400 million annually. The company has cut capital expenditures especially deeply in Alaska, where it has suffered a spate of expensive and disappointing dry holes. Only about $150 million, or 12% of its 1995 exploration and development budget of $1.2 billion, is earmarked for Alaskan projects. That's less than one fourth of what it plans to spend during the year on drilling overseas.

Abundant supplies of relatively inexpensive oil from Alaska's North Slope traditionally have made it possible for the company to run its refineries at maximum efficiency and become California's leading gasoline marketer. Those flush times gradually are drawing to a close, though, as production from Prudhoe Bay begins to tail off and becomes more expensive as a result of enhanced recovery efforts.

Some of Mr. Downey's fledgling projects are supposed to pick up the slack. Starting almost from scratch in the mid 1980s, Arco's overseas production has climbed to about 150 million equivalent barrels a year. Before Mr. Downey is eligible to retire next year, he hopes to see it edge toward 200 million barrels. However, the mathematics of Arco's predicament are inexorable. The company needs at least 300 million equivalent barrels of new reserves simply to replace the amount it depletes from existing fields yearly.

In 1994 Arco managed to slightly boost its overall world-wide reserves, thanks largely to its success in drilling for gas. Improved crude recovery estimates from Prudhoe Bay also helped boost the reserve-replacement figures.

China is one of the few countries where Arco has sketched out its long-term plans with some specifics. Mr. Bowlin, who says that the roughly $460 million already earmarked for offshore gas exploration and production has made Arco the largest Western investor in China, adds that he hopes to strike follow-on agreements covering oil refining and marketing.

With Arco's overall production slated to climb slightly over the next three years, analysts believe that management should have time to deal with long-range question of replacing Prudhoe Bay reserves and making the company less sensitive to fluctuations in international crude prices. But according to Mr. Nowak, "the jury is still out" on how effectively Arco's leaders will address those issues.

**STATEMENT OF NOLAN W. HANCOCK**
**ON BEHALF OF THE**
**OIL, CHEMICAL AND ATOMIC WORKERS**
**INTERNATIONAL UNION**
**CONCERNING H.R. 70, THE EXPORT OF ALASKA OIL**
**BEFORE THE**
**HOUSE COMMITTEE ON RESOURCES**
**U. S. HOUSE OF REPRESENTATIVES**

**MAY 9, 1995**

---

Mr. Chairman, Members of the Committee, my name is Nolan W. Hancock. I am the Citizenship-Legislative Director for the Oil, Chemical and Atomic Workers International Union (OCAW).

Our union represents approximately 100,000 workers employed nationwide in the oil refining industry, chemical industrial plants, pharmaceutical production plants, wet/dry corn milling industries, and we represent several thousand workers in all phases of the nuclear industry. In particular, OCAW represents some eight (8) thousand oil refinery workers on the West Coast and many thousands more across this country. It is these workers whose good-paying jobs could be lost as a result of this legislation. Therefore, I am pleased to have this opportunity to appear and speak out in opposition to H.R. 70, which would remove the current statutory restrictions against the export of Alaska North Slope ("ANS") crude oil.

By dedicating ANS crude oil to the U.S. market, the long-standing statutory export restriction protects the nation's energy security while protecting consumers and preserving manufacturing jobs in the petroleum refining industry. This protection is becoming increasingly important now that ANS production has peaked and the supply of this important resource is declining.

With competition from low-cost foreign refineries and rising crude oil costs, the West Coast refining industry is facing its most difficult operating conditions in a decade. Several refineries have been forced to close and others are reporting operating losses. In California alone, employment in the refining industry has declined from 23,000 in 1990 to less than 19,000 in 1994.

If West Coast refiners lose their supply of preferred ANS feedstocks, the higher cost of using imported foreign oil would further undermine their competitiveness which could easily lead to further refining job losses. Diversion of ANS crude oil to foreign markets would also complicate the ability of West Coast refiners to comply with new reformulated gasoline standards for the improvement of air quality.

I want to remind this Committee that the West Coast contains one of the most modern, complex, and sophisticated refining industries in the world. This nation simply cannot afford further harm to this important part of our manufacturing base.

Our union is particularly concerned over the risk that exported ANS crude oil would be replaced by gasoline and other refined products from foreign refineries. Foreign refiners already enjoy a competitive advantage over domestic refiners because they are not subject to strict U.S. environmental and safety standards. If lower-cost foreign refiners are allowed to replace exported ANS oil with finished refined products, this would constitute a direct displacement of U.S. refining capacity and U.S. refining jobs.

In conclusion, Mr. Chairman, we believe that allowing exports of ANS oil would be a grave economic mistake. We believe that Congress should be considering measures to strengthen our manufacturing base and to enable U.S. workers to add value to our natural resource. We strongly oppose measures -- such as the proposed export of ANS oil -- which would allow a vital domestic natural resource to be exported for processing by foreign manufacturers and foreign workers.

Shipbuilders Council of America
Suite 204
901 N. Washington Street
Alexandria, Virginia 22314
Tel: 703-548-SHIP (7447) Fax: 703-518-0276

Statement By
Thomas P. Jones, Jr., Chairman
Shipbuilders Council of America

Before the

Committee on Resources
United States House of Representatives

Regarding the
Export of Alaskan Oil
H.R. 70

1334 Longworth House Office Building
Washington, DC 20515

May 9, 1995

*The national trade association for U.S. shipbuilders, ship repairers, and shipyard suppliers.*
*Founded in 1920*

Mr. Chairman, members of the Committee, I am Thomas P. Jones, Jr. Vice President of Atlantic Marine Holding Company of Jacksonville, Florida and Chairman of the Board of Directors of the Shipbuilders Council of America. The Council is the national trade association representing private shipbuilding and ship repair yards, marine suppliers and naval architects. A list of our membership is attached. I am here today representing the Shipbuilders Council of America whose members are builders and repairers of Jones Act tonnage. The issue of Alaskan oil export is of vital importance to shipbuilding and ship repair yards in this country and I appreciate the opportunity to appear before you today.

Lifting the ban on the export of Alaskan oil at a time when our biggest customer, the U.S. Navy, is dramatically downsizing would cripple America's shipbuilding and ship repair industry. Therefore the Shipbuilders Council of America categorically opposes lifting the ban on the export of Alaskan oil.

One of the first proposals put forward for export carriage was the use of Jones Act-qualified tankers; U.S.-built, owned and crewed ships eligible for trade between United States ports. The Council opposed utilization of U.S.-built ships because we believed it would violate the GATT agreement and the agreement to end shipbuilding subsidies which was finalized last year under the Organization for Economic Cooperation and Development (OECD). Further, we were concerned that use of Jones Act ships in this export trade could lead, through GATT or OECD action, to loss of the Jones Act. As it is, we believe that the existing proposal to limit this carriage to U.S.-flag, U.S.-crewed ships will also face GATT and bi-lateral treaty challenges. We further believe that the seagoing unions which actively support this proposal will eventually see their job opportunities in this trade exported overseas.

In fact, the Danish Ambassador, the Honorable Peter Dyvig, has written to certain members of the Congress regarding export reservation to U.S.-flag ships of Alaskan oil. Ambassador Dyvig points out in his letter that "**such provisions are deeply objectionable: they are discriminatory; and they constitute a threat to the system of international free trade of which the United States has long been a protagonist and beneficiary. Furthermore, these provisions would contravene the U.S. international commitments and obligations and depart from normal commercial practice.**

**These provisions are also contrary to the OECD's Code of Liberalization of Current Invisible Operations and the OECD's Common Principles of Shipping Policy.**

**These provisions also represent a material and significant breach of U.S. obligations as entered into in bilateral treaties with a number of Governments. These treaties require that the vessels of bilateral partners receive national treatment in the carriage of all cargoes.**

**If enacted, the provisions would also contradict paragraph 7 of the GATS Ministerial Decision of Negotiations on Maritime Transport Services. This stated that participants in the NGMTS shall not apply any measure affecting trade in maritime transport services except in response to measures applied by other countries and with a view to maintaining or improving the freedom of provision of maritime transport services."**

The Ambassador stated that the "grave concerns" expressed above are shared by the Governments of Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, the United Kingdom and the Commission of the European Communities.

I should point out that while the Ambassador's letter specifically addresses the House bill, H.R. 70, the Danish Embassy states that S. 395, a similar bill in the Senate, is a matter of equal concern since it contains the same provisions for export.

More recently, Mr. Roger Clarke, Chairman of the Consultative Shipping Group (CSG) composed of 14 nations involved in international trade with the United States, stated that "countries are very angry and concerned that their treaty rights will be violated." According to a Trade Winds report of April 21, 1995 nine of the fourteen nations in the CSG have bi-lateral shipping agreements with the United States.

Despite the opinion of Ambassador Mickey Kantor, the United States Trade

Representative, that this concept does not create any violation of existing agreements, our trading partners clearly view it as a violation of GATT and existing bi-lateral treaties.

As to shipbuilding and ship repair, we believe that if the ban is not lifted, there is a market in the next five years for the construction of between twelve and fifteen 120,000 ton crude carrier equivalents to replace tonnage being taken out of service by the requirements of the Oil Pollution Act of 1990 (OPA 90). With the massive reduction of U.S. Navy shipbuilding contracts, this market represents an important element in the very survival of a substantial segment of the U.S. shipbuilding industry.

While the loss of shipbuilding opportunities would gravely effect the nationwide industry, loss of repair jobs would have particular impact on the West Coast shipyards. For instance, the Port of Portland, Oregon would be decimated by enactment of this bill. Five hundred to eight hundred jobs would be lost in Portland alone. The city would be faced with no way to pay off an $84 million bond issue which backed the expansion of ship repair facilities in the port. That bond issue was passed in 1976 specifically for the purpose of repairing ships in the Alaskan trade and in the belief that the ban on exports, agreed to at the inception of the Alaskan oil trade, was valid for as long as the oil lasted. We believe that the eventual loss in both repair and new construction shipyards across the nation could be 8,000 to 10,000 jobs if this bill is passed.

The threat to the Jones Act posed by this bill is very real. Thousands of American jobs in ship, boat and barge construction and repair yards are at risk, as are thousands more seafaring union and non-union jobs. The recently completed OECD shipbuilding subsidy agreement leaves the Jones Act as the only long term assistance program for U.S. shipyards. We need Jones Act tanker construction to build a base from which to compete in the international marketplace. If the Jones Act falls and OPA 90 is significantly weakened, U.S. shipbuilding and ship repair will be devastated.

We believe that if all Alaskan oil were exported, U.S. oil imports would rise from the present level of about 52 percent to over 60 percent. Clearly, this is not desirable and we support the recent findings of the Department of Commerce in this matter. The recent increase in the price of oil based on the Administration's position regarding trade with Iran is an indication of the instability of the international oil marketplace. By any standard, U.S. interests are not served by an avoidable increase in our national dependence on foreign oil.

Mr. Chairman, that concludes my remarks. I would like to thank you and the Committee for the opportunity to appear before you today.

Shipbuilders Council of America
Suite 204
901 N. Washington Street
Alexandria, Virginia 22314
Tel: 703-548-SHIP (7447) Fax: 703-518-0276

May 1995

## SHIPYARD MEMBERS

The American Ship Building Company
Tampa Shipyards, Inc.
6001 South West Shore Blvd.
Tampa, FL 33616

Atlantic Marine, Inc.
8500 Heckscher Drive
Jacksonville, FL 32226

Bay Shipbuilding Company
605 North Third Avenue
Sturgeon Bay, WI 54235

Bender Shipbuilding &
Repair Company, Inc.
Post Office Box 42
265 S. Water Street
Mobile, AL 36601

Bethlehem Steel Corporation
Bethlehem, PA 18016
Port Arthur, TX
Sparrows Point, MD

Bollinger Machine Shop &
Shipyard, Inc.
Post Office Box 250
Lockport, LA 70374

Cascade General, Inc.
Post Office Box 4367
Portland, OR 97208

Edison Chouest Offshore
North American Shipbuilding, Inc.
East 118th Street
Galliano, LA 70354

General Ship Corporation
400 Border Street
East Boston, MA 02128

Halter Marine, Inc.
13085 Industrial Seaway Road
Gulfport, MS 39505

The Jonathan Corporation
Post Office Box 1839
Norfolk, VA 23501

Marinette Marine Corporation
Ely Street
Marinette, WI 54143

McDermott Incorporated
Post Office Box 60035
1010 Common Street
New Orleans, LA 70160

Metro Machine Corporation
Box 1860
Norfolk, VA 23501

Norfolk Shipbuilding &
Drydock Corporation
Post Office Box 2100
Norfolk, VA 23501

Peterson Builders, Inc.
101 Pennsylvania Street
Post Office Box 47
Sturgeon Bay, WI 54235

Southwest Marine, Inc.
Foot of Sampson Street
Post Office Box 13308
San Diego, CA 92113
San Francisco & San Pedro, CA

**ALLIED INDUSTRIES MEMBERS**

Bird-Johnson Company
110 Norfolk Street
Walpole, MA 02081

Dresser Pump Division
Dresser Industries, Inc.
401 Worthington Avenue
Harrison, NJ 07029

Fairbanks Morse Engine Division
1730 M Street, NW
Washington, DC 20036

General Electric Company
1331 Pennsylvania Avenue, NW
Washington, DC 20004

Hopeman Brothers, Inc.
Post Office Box 820
Waynesboro, VA 22980

Jamestown Metal Marine Sales, Inc.
4710 Northwest Second Avenue
Boca Raton, FL 33431

Jered Brown Brothers, Inc.
1608 Newcastle Street - Post Office Box 904
Brunswick, GA 31521

Reliance Electric Company
24800 Tungsten Road
Cleveland, OH 44117

Teleflex Incorporated
205 Church Road
North Wales, PA 19454

Unisys Government Systems Group
8201 Greensboro Drive
Suite 1000
McLean, VA 22102

Wartsila Diesel, Inc.
201 Defense Highway
Annapolis, MD 21401

Westinghouse Electric Corporation
Hendy Avenue
Sunnyvale, CA 94088

York International Corporation
631 South Richland Avenue
York, PA 17405

## AFFILIATE MEMBERS

Bastianelli, Brown & Touhey
2828 Pennsylvania Avenue, NW
Washington, DC 20007

Fort & Schlefer
1401 New York Avenue, NW
Washington, DC 20005

Kvaerner Masa Marine, Inc.
Power Technology Center
201 Defense Highway - Suite 202
Annapolis, MD 21401

McNabb Expositions
34 Spruce Street
Rockport, ME 04856

TTS, Inc.
813 Forrest Drive - Suite A
Newport News, VA 23606-3403

## NAVAL ARCHITECT MEMBERS

Designers & Planners, Inc.
2120 Washington Boulevard
Arlington, VA 22204

John J. McMullen Associates, Inc.
One World Trade Center
New York, NY 10048

Rosenblatt & Son, Inc.
350 Broadway
New York, NY 10013

## ASSOCIATION MEMBER

South Tidewater Association
of Ship Repairers, Inc.
Post Office Box 2341
Norfolk, VA 23501-2341

Port of Portland

Box 3529, Portland, Oregon 97208
503/231-5000

**TESTIMONY FOR THE HOUSE COMMITTEE**
**ON RESOURCES**
**TUESDAY, MAY 9, 1995**

**Tom Decker, Manager**
**Federal Government Relations, The Port of Portland**
**Portland, Oregon**

My name is Tom Decker, Manager of Federal Government Relations for the Port of Portland. The Port of Portland appreciates your invitation today to discuss H.R. 70, the provisions intended to lift the Alaskan North Slope crude oil export ban. The Port of Portland owns and operates marine terminals, airports, and the Portland Ship Yard (PSY)--one of the few ship yards in the nation operated by a public port.

Mr. Chairman and members of the committee, the Port of Portland has again this year carefully weighed the pros and cons of lifting the ban on Alaskan oil exports and we remain opposed.

Others represented on a panel before the committee are more competent than I to speak about the national benefits of the longstanding Alaska oil export ban for our national security, for American consumers, for the domestic refinery industry, and many other U.S. interests. The Port of Portland fully supports the continuation of the ban in pursuit of these objectives. However, I would like to focus on the impact of legislation proposed by the committee Chairman would have on U.S. ship yards and their workers. The Port's judgment is based upon our experience as the owners and managers of the leading Alaska oil tanker repair and overhaul facility in the United States.

Would lifting the ban benefit ship yards and their workers? Yes, but it would benefit only Asian ship yards. Removing the ban would hurt, perhaps even cripple, some U.S. ship yards--the PSY foremost among them.

The 1973 Congressional decision to ban exports of Alaskan North Slope oil balanced the interests of Alaska, the oil companies, the environment, U.S. consumers, U.S. seafaring unions, U.S. refineries, and U.S. ship yards. The decision to keep this resource in the U.S. was no less than an explicit statutory guarantee that U.S. repaired vessels would be carrying U.S. crude oil from Alaska to West Coast and East Coast oil refineries.

Relying on this commitment, voters in metropolitan Portland, Oregon, in 1976 undertook a major investment pledging the credit of their real property and voted to back an $84 million ship yard expansion program. This ship yard expansion program, among other things, included acquisition of the largest floating dry dock in the Americas to handle the Alaskan North Slope Very Large Crude Carriers (VLCCs).

Here was an American hometown not asking for a Federal handout, but willing to put up its own credit and dollars to invest in a facility critical to the method sanctioned in statute for transporting Alaskan crude to U.S. refineries.

Mr. Chairman, $84 million is a lot of money to property taxpayers in Portland, Oregon. Courage and a lot of faith in the commitment by Congress were required by Portlanders to vote to back this long-term investment. It was expected to take at least 30 years to pay off the dry dock, which was expected to have a life of at least 50 years.

The voters' confidence has been rewarded until now. Between 500 and 800 family wage jobs have been directly supported by facilities built with the 1976 bond issue. Subcontractors and related industries have generated in still more high wage jobs. All told, repairs utilizing Dry Dock 4 from March 1979 to August 1994 generated $1,447,573,508 (1994 dollars) in revenue. Over time, this repair work produced 17,134 ship repair jobs with personal earnings of $567,124,301. Total direct and induced jobs equaled 23,661 for Oregon and Southwest Washington.

At the same time, the State of Alaska and the oil companies have had the benefit of a first class repair facility easily accessible from the tankers' normal routes. It has been a mutually beneficial relationship. And the contractors at the yard have developed important relationships with their customers based on timely and quality repairs. PSY's top five customers over the past several years have been SeaRiver Maritime (Exxon), Chevron, BP Oil, Arco Marine, and West Coast Shipping. Our contractors don't win every bid, as there is robust competition on the West Coast of the U.S. Still, the record of repairs won by the yard shows that PSY contractors can compete well in a tough business environment.

Lifting the ban would make a mockery of Portland's reliance on the guarantee Congress made. More than 60 percent of Portland's current ship repair work comes from Alaskan North Slope VLCCs. Every domestic ship repair company we are in contact with concludes, as we do, that lifting the ban would mean the great bulk of that work would then be done in Asian ship yards. Even oil companies that continue shipping to U.S. West Coast refineries will be able to schedule a revenue generating trip to Asian ports for any vessel scheduled for major repair.

Near or in some of those Asian ports are Asian ship yards where the repair work can be done at less cost than in the U.S., because they have lower environmental protection standards, because they don't pay union or even U.S. minimum wages, because they don't provide U.S. standard benefits, and because worker safety is given less attention than in U.S. ship yards.

It is not just Portland's ship yard that would be devastated by the proposed reversal of policy. Export of Alaskan North Slope oil would decimate the entire segment of the U.S. shipbuilding and repair industry which depends on U.S. oil tanker construction, repair, and maintenance. In a report issued last year by Gillette Wilson, Economist the estimate of total jobs subject to being lost is 9,500.

Some argue the market for repair of Alaskan North Slope VLCCs may dwindle over the next ten years, in any event, as the North Slope's oil approaches depletion. We acknowledge this. And PSY has been anticipating these coming changes by seeking new ship repair niches to serve. We are confident we can adapt along with the marketplace to these gradual changes. We cannot survive an overnight Congressional reversal of direction that would cause our major market to dry up.

So, who wins if the ban is lifted? Not the U.S. gasoline and oil consumers, who will see higher prices. Not the U.S. ship yard or refining industries, which will see lost business. The winners will be Asian ship yards and their workers. The winners will also be British Petroleum (BP), which will be able to exert greater control over U.S. west coast oil supplies and, thus, command higher crude prices in Asian markets. The final winner is the State of Alaska, which will receive accordingly higher royalties.

We do not lightly stand in the way of such good fortune for BP and Alaska. After all, BP has been a very good customer at PSY. But we believe they should have to abide by the difficult compromise worked out in 1973 which allowed them to tap and generate wealth from North Slope oil in the first place in return for a ban on export of that oil.

Surely no one can doubt that North Slope drilling and the Alaskan pipeline would have been barred if advocates had revealed at the time that they intended the export ban to be only temporary.

Thank you, Mr. Chairman. I would be happy to respond to any questions you or other members of the Committee may have.

04/28/95
EX:E95162.DOC

STATEMENT FOR THE RECORD BY
THE AMERICAN MARITIME CONGRESS AND
THE MARINE ENGINEERS' BENEFICIAL ASSOCIATION
PRESENTED TO
THE HOUSE COMMITTEE ON RESOURCES

MAY 8, 1995

This statement in support of H.R. 70 is submitted on behalf of the American Maritime Congress, an organization representing U.S.-flag ship operating companies in the domestic and international trades, and the Marine Engineers' Beneficial Association, a maritime union representing licensed engineers and deck officers who are employed aboard U.S.-flag vessels. Together we urge support for H.R. 70 that would permit exports of Alaska North Slope crude oil and that would require all exported oil be carried on American-flag tankers. Swift enactment of this legislation will help preserve the U.S.-flag tanker fleet and create jobs for American merchant mariners.

Since the Trans-Alaska Pipeline Act was enacted in 1973, the oil situation has changed fundamentally. U.S. oil supplies are ample; consumption is actually lower; the Strategic Petroleum Reserve has been filled with more than 600 million barrels of oil; and U.S. oil sources have become more diversified. With the end of the Cold War, the victory over Saddam Hussein, and the Middle East peace agreement, the United States now has access to new areas of supply. Moreover, if such exports are permitted, the President will still retain broad authority to keep such oil in the United States in the event of an emergency.

For the U.S.-flag maritime industry, Alaska oil exports would mean more vessels operating under the U.S.-flag, more jobs aboard U.S.-flag tankers, and more vessels constructed and repaired in American shipyards. A key provision of H.R. 70 will provide that any oil exported must be carried on U.S.-flag tankers. In short, the vessels that will carry this oil will be American-owned, American-crewed, and American-flag.

91-746 O - 95 - 5

Recently, with declining North Slope production and increased use of the pipeline from Southern California to Texas, U.S.-flag tanker carriage of Alaska oil has dropped steadily. North Slope oil exports will reverse this decline because more Alaska oil will move by sea and because there will be more oil to move, with increased Alaska production stimulated by exports. It will, in fact, help revitalize the American-flag tanker fleet which has been declining -- not only by providing new cargoes but by stimulating modern tonnage constructed as a result of the double-hull requirements of the Oil Pollution Act of 1990. This will help preserve a strong, modernized domestic oil transportation system, entirely under American control and available to serve our nation in an emergency, and it will preserve and enhance America's maritime jobs.

Today, with U.S. oil production declining and with the U.S. merchant marine tanker fleet and the jobs it generates also shrinking, it is important to act now to strengthen both industries. Lifting the existing Alaska North Slope oil export ban is an action that can make a significant difference to both oil production and to America's maritime industries. On behalf of the U.S.-flag maritime industry, we wish to express our strong support for H.R. 70, to permit the export of Alaska North Slope crude oil on U.S.-flag vessels.

**HEARING BY THE HOUSE RESOURCES COMMITTEE ON THE EXPORT OF ALASKAN OIL AND UNITED STATES FLAG VESSEL TRANSPORTATION REQUIREMENTS**

**STATEMENT OF THE COUNCIL OF EUROPEAN & JAPANESE NATIONAL SHIPOWNERS' ASSOCIATIONS (CENSA)**

The Council of European & Japanese National Shipowners' Associations (CENSA) is pleased to submit comments in connection with the hearing on May 9, 1995 on H.R. 70, a bill to lift the export ban on Alaskan oil and to require transportation of that oil in United States flag vessels.

CENSA is comprised of the National Shipowners' Associations of Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Sweden and the United Kingdom, plus individual carriers from most of those countries. These countries and their shipowners represent a large majority of the trading partners of the United States in the liner, bulk, and tanker trades.

CENSA does not presume to join the debate over whether the United States should or should not export Alaskan crude oil. Should the United States decide to lift the existing export ban, however, CENSA strongly urges that the current provision in H.R. 70 requiring that U.S. flag vessels carry that oil be deleted. A U.S. flag requirement would violate a number of bilateral and multilateral trade agreements to which the United States is a party, would quite literally invite retaliation in the form of similar restrictions by other governments favoring their own fleets, and would reverse a longstanding United States position supporting nondiscriminatory access to international commercial cargoes.

**A DOMESTIC FLAG REQUIREMENT WOULD VIOLATE UNITED STATES INTERNATIONAL TRADE COMMITMENTS**

Among the international agreements that would be violated by a U.S. flag requirement for transport of Alaskan oil are the following:

(1) Negotiating Group on Maritime Transport Service ("NGMTS") Standstill Agreement

In 1994, the signatories to the General Agreement on Trade in Services ("GATS"), including the United States, formed the NGMTS in order to pursue "elimination of restrictions" on maritime services. The participants adopted a Decision on Negotiations on Maritime Transport Services setting forth the purposes of and procedures governing the Negotiating Group. Paragraph 7 of that Decision, referred to as the "standstill agreement," states:

> Commencing immediately and continuing until the implementation date to be determined under paragraph 4, it is understood that participants shall not apply any measure affecting trade in maritime transport services except in response to measures applied by other countries and with a view to maintaining or improving the freedom of provision of maritime transport services, nor in such a manner as would improve their negotiating position and leverage. (emphasis added)

A statutory provision limiting international commercial cargo to U.S. flag carriers clearly would run counter to the stated purpose of "maintaining or improving the freedom of provision of maritime transport services." Furthermore, taking such action immediately after adopting the standstill agreement would undermine the international negotiating process that the NGMTS was convened to undertake. Such action is not consistent with the United States' leadership role in these important negotiations.

United States Trade Representative Michael Kantor, in a March 9, 1995 letter to Senator J. Bennett Johnston, explicitly recognized that enactment of the proposed legislation could have serious consequences for further negotiations on international shipping agreements:

> There are, of course, potential implications for violating the peace clause by adopting new restrictive measures during the course of the negotiations. These implications could include changes in the willingness of other parties to negotiate seriously to remove maritime restrictions and might lead to certain parties simply abandoning the negotiating table.

While recognizing the serious international implications of the proposed cargo reservation law, Ambassador Kantor nevertheless concludes that the enactment of the provision would "not present legal problems for us under the WTO." The rationale for this conclusion is not that the cargo reservation provision would not violate the standstill agreement; Ambassador

Kantor implicitly acknowledges that it would. Instead, his conclusion rests on the fact that the World Trade Organization does not have a mechanism by which it can force the United States to repeal the offending provision. In other words, Ambassador Kantor's position appears to be that the United States "legally" may do anything that the WTO cannot directly force it to undo.

This conclusion is misleading in its narrowness and is squarely at odds with settled international law. Although Ambassador Kantor is correct that the WTO cannot force the United States to repeal a domestic statute, it does not follow that the cargo reservation proposal would be consistent with the standstill agreement. First, it is exceedingly rare for an international agreement to authorize an international body to repeal a law of a member state without the concurrence of that state. The absence of such a power in the WTO is therefore entirely meaningless. Second, the WTO has other remedies available to it, among them the authorization of retaliation by other countries. Third, international agreements are premised on the concept of cooperation, not coercion. For example, the International Court of Justice has jurisdiction only over those state parties that consent to its jurisdiction. See Article 36 of the Statute of the International Court of Justice. Thus, the fact that an international organization does not have the power to overrule the legislature of a member country does not mean, as Ambassador Kantor suggests, that any legislative action taken by a member country is automatically acceptable under international agreements.

In addition to violating the general policies of the standstill agreement, the proposed U.S. flag requirement would also contravene the more specific undertaking not to take actions that would improve a country's negotiating position. Ambassador Kantor also addresses this issue in his letter, stating that, in his view, "it would be very difficult for foreign parties to make a credible case that the U.S. has 'improved its negotiating position'" on the basis of a U.S. flag requirement. This opinion is based on the factual, not legal, assumption that non-U.S. flag tankers would, as a result of the proposed legislation, have greater opportunities to carry imports to California, and thus would not be harmed. This assumption is incorrect for a number of reasons.

First, speculation as to the potential development of alternative markets does nothing to change the fundamental fact that the proposed United States domestic flag requirement, if enacted, would become a "bargaining chip" in any future negotiations involving access to international commercial cargoes. The damage would be done from a policy perspective even if localized mitigating opportunities were to develop. Second, predictions of increased California imports are entirely speculative, and do not take into account the possibility of increased domestic production -- one of the factors most often cited in support of exporting Alaska oil.

The NGMTS standstill agreement is a recent and very explicit commitment by the United States to preserve and encourage free access to international commercial cargoes. Ambassador Kantor trivializes the commitment made by the United States by characterizing it as a "political commitment," presumably in contrast to a "legal" commitment. In the context of an international system based on cooperation rather than coercion, this distinction is a cynical one. For the United States to take the position that it casually may break its international promises merely by classifying them as "political" would seriously diminish its credibility in the community of nations.

(2) Bilateral Treaties of Friendship, Commerce and Navigation ("FCN Treaties")

In addition to violating the recent and clear undertakings of the NGMTS standstill agreement, the U.S. flag reservation would violate bilateral agreements between the United States and virtually all of its major trading partners.[1/] A

---

1/ See, e.g., Treaty of Friendship, Establishment and Navigation between the United States and Belgium (1961); United States/Denmark Treaty of Friendship, Commerce and Navigation (1961); United States/Finland Treaty of Friendship, Commerce and Consular Rights (1934); United States/Germany Treaty of Friendship, Commerce and Navigation (1954); United States/Italy Treaty of Friendship, Commerce and Navigation (1949); United States/Japan Treaty of Friendship, Commerce and Navigation (continued...)

representative provision in such treaties can be found at Article 13 of the United States/Belgium Treaty of Friendship, Establishment and Navigation:

> 1) Vessels of either Contracting Party shall have liberty, on equal terms with vessels of the other Party and on equal terms with vessels of any third country, to come with their cargoes to all ports, places and waters of such other Party open to foreign commerce and navigation. Such vessels and cargoes shall in the ports, places and waters of such other Party be accorded in all respects national treatment and most-favored-nation treatment.
>
> 2) Vessels of either Party on route to or from the territories of the other Party shall be accorded national treatment and most-favored-nation treatment with respect to the right to carry all cargo that may be carried by vessel. (emphasis added)

Under this and similar provisions in other treaties, the United States has pledged its resolve to maintain a free, open, and competitive system of international maritime transportation, affording to the vessels of its partner countries rights to access cargo that are equal to the rights enjoyed by U.S. flag vessels. There can be no doubt that the proposed cargo reservation law would violate these treaties. At an April 5,

---

1/ (...continued)
(1953); United States/Norway Treaty of Friendship, Commerce and Consular Rights (1932).

1995 open meeting of the Consultative Shipping Group[2/] with the U.S. Department of Transportation, representatives of eight countries explicitly stated that they would consider the U.S. flag reservation to violate their bilateral Treaties of Friendship, Commerce and Navigation with the United States. Those countries are: Belgium, Denmark, Finland, Germany, Greece, the Netherlands, Norway, and Japan. Such statements by major trading partners, and their implications for international trade and the United States economy, cannot be disregarded without peril to the position of the United States as a leader of efforts to remove restrictions on and expand free trade.

(3) General Agreement on Tariffs and Trade ("GATT"), Article XI

Article XI of the GATT begins:

> No prohibitions or restrictions other than duties, taxes, or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party. (emphasis added)

A plain reading of this fundamental GATT provision, to which the United States has subscribed since 1947, indicates that

---

2/ The Consultative Shipping Group is comprised of the Governments of Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, The Netherlands, Norway, Portugal, Spain, Sweden, and the United Kingdom, and the Commission of European Communities.

a requirement that a foreign importer must hire a U.S flag vessel to deliver oil purchased from Alaska is a prohibited restriction on the export of that product.

(4) <u>1987 Organization for Economic Co-Operation and Development ("OECD") Council Recommendation Concerning Common Principles of Shipping Policies</u>

On February 13, 1987, the OECD Council, in which the United States is a participant, adopted a Recommendation of the Council concerning shipping policy (the "Common Principles"). There the Council stated that it:

> II. AGREES that, in pursuance of, and/or in addition to,[3/] the obligations under the Code, no Government of a Member country should introduce new and/or additional measures restricting competitive access to international trade and cargoes. (footnote added)

The Recommendation went on to state:

> Principle 8 -- Freedom of Shipping in the Bulk Trades:
>
> OECD Member countries reaffirm their commitment to a free and fair competitive environment in the dry and liquid bulk trades. They are convinced that cargo sharing in the bulk trades leads to substantial increases in transportation costs and has a serious effect on the trading interests of all countries.

---

3/ Because this agreement is "in addition to" obligations under the Code of Liberalisation of Current Invisible Operations ("Code"), the United States note in derogation of the maritime transportation provisions of the Code is inoperative with respect to the Common Principles. In short, while the United States has maintained its existing position vis-a-vis the Code, it has also undertaken not to take further steps restricting free access to international commercial cargoes.

Here again, through another international body, the United States has expressed its commitment not to further restrict competition for and access to international cargoes. The proposed legislation would seriously undermine that commitment.

**A UNITED STATES FLAG REQUIREMENT WOULD BE INCONSISTENT WITH EXISTING UNITED STATES LAWS PROHIBITING CARGO RESERVATION BY OTHER COUNTRIES**

In addition to the multilateral and bilateral agreements prohibiting reservation of international commercial cargo to national flag carriers, there are United States statutes that also reflect the strong U.S. policy against cargo reservation for commercial cargoes. These laws are different from those discussed above in that they apply to situations in which the United States may wish to take action against cargo preference requirements of other countries, rather than to instances of U.S. flag preferences. Nevertheless, the existence of these laws reflects the long-held policy by the United States Congress that freedom of access to commercial cargoes is a cornerstone of healthy international trade.

The most explicit of these domestic laws is section 19(1)(b) of the Merchant Marine Act of 1920, 46 U.S.C. app. § 876, which directs the Federal Maritime Commission:

> To make rules and regulations affecting shipping in the foreign trade not in conflict with law in order to adjust or meet general or special conditions unfavorable to shipping in the foreign trade, . . . .

The Federal Maritime Commission has promulgated rules, now codified at 46 C.F.R. § 585.301, describing what activities would be considered "conditions unfavorable to shipping in the foreign trade." Section (b) of 46 C.F.R. § 585.301 states that conditions are unfavorable (and thus subject to severe sanctions under section 19(9) of the Act) if such conditions:

> Reserve substantial cargoes to the national flag or other vessels and fail to provide, on reasonable terms, for effective and equal access to such cargo by vessels in the foreign trade of the United States. (emphasis added)

Congress reaffirmed its concern with restrictions on access to cargo when it passed the Shipping Act of 1984. That law contains section 13(b)(5), 46 U.S.C. app. §1712(b)(5), which states:

> If, after notice and hearing, the Commission finds that the action of a common carrier, acting alone or in concert with any person, or a foreign government has unduly impaired access of a vessel documented under the laws of the United States to ocean trade between foreign ports, the Commission shall take action that it finds appropriate, including the imposition of any of the penalties authorized under paragraphs (1), (2), and (3) of this subsection. (emphasis added)

Taken together, these statutory and regulatory provisions indicate a strong concern by the United States Congress that international shipping remain free from artificial restraints on the ability of carriers to compete for commercial cargoes. For the United States to now pass a statute requiring precisely what it has explicitly forbidden other countries to do would undermine both the effectiveness of its existing laws and its leadership position in efforts to encourage international cooperation.

**THE POTENTIAL COSTS TO THE U.S. CONSUMER OF OTHER COUNTRIES ADOPTING "ME-TOO" DOMESTIC FLAG REQUIREMENTS FOR OIL AND OTHER RAW MATERIAL EXPORTS TO THE U.S. FAR EXCEED ANY POTENTIAL BENEFITS TO THE U.S. FLAG TANKER FLEET OF ALASKAN OIL EXPORT RESERVATION**

Adoption of the proposed U.S. flag restrictions would invite other countries to adopt similar measures, the costs of which would be borne by U.S. consumers and businesses.

In testimony before the Senate Energy Committee regarding S.395, Mr. William H. White, Deputy Secretary of Energy, said the following:

> There has been concern expressed that requiring U.S. flag vessels to carry exports of ANS crude would set a dangerous precedent with respect to extending cargo preference in shipping trade. The Administration views the requirements of flag-preference for ANS as unique, since there is the very real danger of lost seaman's jobs resulting from the displacement of shipments carried in the coastwise trade. This action should not be viewed as opening further possibilities for cargo preference, which this Administration strongly opposes.

This portion of Mr. White's testimony serves as a succinct synopsis of the political balancing between focused domestic interests and broader international policies inherent in the proposed legislation. However, it also fundamentally misperceives the nature and scope of the danger presented by the proposed cargo preference provision.

The testimony assumes that the United States has control over the extent of future cargo preference laws for which the current proposal may be a catalyst. That assumption is simply wrong. The real danger of the proposal is not that it will start the United States down a slippery slope of reserving ever greater amounts of commercial export cargo to U.S. flag vessels, although that is a real and decidedly negative possibility. Rather, the most pressing danger -- to both the U.S. and world economies -- is that other exporting countries will also adopt unilateral measures requiring that their basic commodities sold to the United States -- oil and non-oil -- be carried on vessels flying their flag.

The possibility of foreign imitation is not merely theoretical. There are many countries upon which the United States depends for basic raw materials that have domestic flag fleets for which cargo reservation laws would be tempting and a tremendous boon. For example, there are OPEC countries supplying U.S. oil imports that possess existing domestic flag tanker fleets, currently competing in the open market, that would benefit enormously from a similar reservation to them of all shipments to the U.S., with of course a marked increase in freight rates and consequent costs to the U.S. consumer. Other developing countries have a record of cargo reservation practices which are then in effect "sold" to importing countries, again to the ultimate cost of the end user. Brazil is a major exporter of iron ore to the United States (5.2 million tons in 1991). Brazilian shipowners have sponsored legislation proposed by Congressman Salomao that would reserve large quantities of Brazilian exports to Brazilian flag vessels. U.S. flag reservation of Alaskan oil exports would be welcomed by those Brazilian interests and others as a clear precedent and justification for their own flag reservation, with direct detrimental cost and service consequences for U.S. industry.

In each of these instances, the imposition of cargo preference laws by U.S. trading partners would create transportation monopolies for the benefit of the exporting nation's domestic fleet. The price increases caused by these monopolies would be paid for by the United States consumers and businesses that buy the imported goods. Particularly in light of the fact that the United States imports over fifty percent of its oil supply, such transportation monopolies created by other countries' reservation laws would have inflationary impacts throughout the U.S. economy, adding costs without adding to productivity, and sending dollars outside of the United States. These costs, while difficult to predict, are real and substantial, and would certainly outweigh any short-term economic gain that may be realized by protecting the U.S. flag independent tanker fleet from global competition.

These effects cannot be unilaterally controlled by the United States, and no matter what words of caution or limitation the United States may utter as it frees the genie of protectionism from the bottle, that genie, once released, will operate beyond its master's control. To pretend, as the above quoted testimony does, that a fundamental rule governing free trade can be unilaterally reversed without causing serious disruption, is both short-sighted and mistaken.

**CONCLUSION**

The United States has for many years provided valuable leadership in the international community by consistently encouraging free and open trading policies and competitive access to international commercial maritime cargoes. CENSA respectfully urges the Committee to recognize the importance of continuing that leadership role. The Committee should examine thoroughly the damaging precedent that would be set if the United States were to reverse its longstanding policy, and should assess realistically the costs of the U.S. flag provision to United States consumers and to the efficiency of world markets. This examination and assessment require that the U.S. flag requirement be deleted from the bill.

91-746 O - 95 - 6

CENSA appreciates this opportunity to share its views on this important issue.

Respectfully submitted,

Council of European & Japanese
National Shipowners' Associations

By:
Peter G. Sandlund
Washington Representative

This material is transmitted by Peter G. Sandlund 1730 M Street, N.W., Washington, D.C., who is registered under the Foreign Agents Registration Act of 1938 as amended, as Washington, D.C. Representative of the Council of European & Japanese National Shipowners' Associations, 30/32 St. Mary Axe., London EC 3A 8ET, England. This material is filed with the Department of Justice, where the required registration statement is available for public inspection. Registration does not indicate approval of this material by the United States Government.

INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

1101 SIXTEENTH ST., N. W.
WASHINGTON, D. C. 20036
(202) 857-4722

DENISE A. BODE
PRESIDENT
(202) 857-4722
FAX (202) 857-4799

May 9, 1995

The Honorable Don Young
Chairman
House Committee on Resources
U.S. House of Representatives
Washington, D.C. 20515

Dear ~~Representative~~ Mr. Chairman Young:

I am writing on behalf of the Independent Petroleum Association of America (IPAA) in support of H.R. 70, legislation to repeal the ban on the export of Alaska North Slope crude oil. IPAA, which represents 5,300 crude oil and natural gas producers in the United States, fully supports this important legislation. We request that the attached statement be placed in the hearing record.

Lifting the ban on ANS crude oil is an important step toward addressing American's deteriorating energy security. In addition to increasing U.S. crude oil production, ending the export ban will significantly increase jobs in the domestic oil and gas industry. Lifting the ban on ANS crude oil will also dramatically increase tax and royalty revenues for local, state and federal governments over the long term. It will even help improve our country's staggering trade deficit.

America's independent producers are united in their wholehearted support for repealing the ban on ANS exports because of the long-term, positive impact that will ripple throughout the domestic oil and gas industry. In our view, this is not a regional issue. It is a matter of national security and energy security, and we applaud the leadership in Congress that is seeking a repeal of the 22-year old ban.

Thank you again for your hard work on behalf of independent producers. We believe that H.R. 70 is an significant step in repairing the weakened domestic oil and natural gas industry, and we offer our full support of this important legislation.

Sincerely,

Denise A. Bode

Denise A. Bode

DAB/caw
enclosure

INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

1101 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20036
(202) 857-4722
FAX (202) 857-4799

Statement of the
**Independent Petroleum Association of America**
before the
**United States House of Representatives**
**Committee on Resources**
on the
**Repeal of the Ban**
**on the Export of Alaska North Slope Crude Oil**

May 9, 1995

This constitutes the statement of the Independent Petroleum Association of America (IPAA) on the repeal of the ban on the export on Alaska North Slope crude oil. IPAA represents approximately 5,500 independent crude oil and natural gas producers in all 33 states with oil and natural gas production. We appreciate the opportunity to submit for the record our position in support of ending the 22-year ban on exporting Alaska North Slope (ANS) crude oil.

The IPAA is pleased to join officials from the state governments of Alaska, a coalition of domestic independent and major crude oil producers, tanker operators, and labor representatives in support of H.R. 70. Independent producers favor lifting the ban on ANS exports because doing so is good economic policy and good energy policy. Moreover, putting an end to the ban is an important step toward addressing the critical issue of our nation's deteriorating energy security, while not compromising our national security.

The IPAA's Crude Oil Policy Committee began a review of the impacts of the export ban three years ago, and most recently examined the impacts of the ban at its May 1994 meeting. Our early conclusions have been confirmed by the Department of Energy study, *Exporting Alaskan North Slope Crude Oil--Benefits and Costs.* DOE concluded that the export of Alaskan oil would yield substantial economic and energy benefits to California and Alaska, as well as the entire country.

There are several convincing arguments for lifting the ban.

**Free Markets**

The current ban on ANS exports clearly infringes on the free market policies of the United States. From its founding in 1929, IPAA has advocated tariffs or import fees to protect domestic production from cheap oil imports. However, time and again, our requests have been turned aside by one administration after another. We have been told by Republican and Democratic administrations that we have to live under free market principals. We are trying to do that, but this export ban is contrary to the very free market principals our government tells us we must live with.

The operation of free markets can and should dictate where ANS oil is sold. Most of it will continue to go right where it is going now -- to the West Coast of the United States. The only difference will be that oil production in California and Alaska won't be depressed, resulting in increased unemployment, business closures, and the waste of natural resources. Exporting ANS crude oil will help improve the ability of U.S. producers to compete in the international crude oil markets, which are dominated by government-run oil companies and a few very large corporations.

**Impact on the Economy**

**The ban on ANS exports has undermined the competitiveness of U.S. independent producers, especially in California.** The ban has depressed the wellhead price of onshore, mostly heavy crude oil production in California, which already discounted in the U.S. market, leading some producers to seek and obtain export licenses for limited quantities of heavy oil.

The impact of the ban is clear. Alaska and California are the largest and third largest producers of crude oil in the U.S. Their combined output exceeds regional demand. The issue is further complicated by the fact that the quality of California crude tends to be heavy and must be blended with lighter crudes for use in the region's refineries. When world oil prices are low, as they are today, transporting the excess crude oil to other regions of the country is simply not competitive with imports into those regions. The result is that a glut is created on the West Coast market that further drives the price of oil produced in Alaska and California below the world price. These glut-induced, depressed prices have contributed to the devastation of the California oil and gas industry. Since 1985 over 32,000 jobs have been lost in California's producing industry, and exploration activities have come to a near halt.

**The ban on ANS crude handicaps independent producers in the capital markets as well.** U.S. crude oil production competes worldwide for capital. American crude oil producers generally have difficulty attracting outside investment capital. We depend to a great extent on capital generated inside our industry for re-investment in oil and natural gas production projects. As a result of the ban and the artificially low prices it has created, California's independent producers are even more greatly disadvantaged in the competition for investment capital.

**The ANS export ban is stifling technological development and maximum resource utilization.** California's vast heavy oil reserves are increasingly dependent on capital-intensive advanced recovery technology. With heavy oil wellhead prices below their free market value, valuable enhanced production projects are simply not economic, and technology that has the potential to increase California onshore production is not being tested and commercially demonstrated.

**Lifting the ban would provide economic and energy gains for the U.S., especially in Alaska and California.** The DOE study concluded that the export of Alaskan oil would yield clear benefits to the country. These benefits would be achieved without adverse impact to the environment, and with no increases in the price of gasoline. The study concluded that the Federal government would realize increased royalty revenues, and Alaska and California would see the creation of thousands of new jobs, a stimulus in onshore production, and an increase in state revenues.

The DOE study forecasts underscore and quantify the conclusions IPAA's Crude Oil Policy Committee reached more than three years ago, predicting a net increase in U.S. employment up to 25,000 jobs by the end of the decade, an increase in federal royalties and in state and local oil-related revenues. In addition, Since 1988 Alaskan production, which has declined by 25 percent to 1.5 million barrels of oil per day (MMb/d) since 1988, should improve, along with prospects for additional Alaskan development and exploration. Lifting of the ban would also allow the TransAlaska Pipeline System (TAPS) to be better utilized.

**National Security and the Need for Congressional Leadership**

Every step our nation can take to improve domestic oil production is crucial, especially now. Just last month, the Department of Commerce reported that oil imports threaten to impair U.S. national security. It is vital that policymakers examine domestic energy law and make changes where those laws contribute to our nation's import dependence.

The ANS export restriction is a vestige of the failed energy policies of the past. It was enacted less than a month after the commencement of the 1973 Arab-Israeli War and the first Arab oil boycott. In 1973, many people believed that the export ban would enhance our nation's energy security. They were wrong. It is clear that the export ban has contributed to making America more dependent on foreign oil.

U.S. energy security has continued to deteriorate, and government policies have contributed substantially to the domestic industry's problems through pervasive and costly regulatory problems of questionable merit. Since 1986, U.S. crude oil prices have averaged in the mid-to-upper teens, a price level that under cuts the ability of domestic producers to invest in oil and natural gas development projects here in the United States.

Oil output in the lower-48 states has declined by about 25 percent in the last decade, from 8.9 MMb/d to 6.6 MMb/d, while consumption has grown from 15.7 MMb/d to 17.7 MMb/d. This growing gap between consumption and production that has been filled by oil imports, which have risen from 5.4 MMb/d in 1984 to 8.9 MMb/d for 1994. An ever-increasing share of these imports come from the Persian Gulf nations, where the Department of Commerce recently predicted that economic and political factors will result in an oil supply disruption in the near term.

Last year the amount of oil that the U.S. imported reached an all-time high, over 50 percent of demand, while domestic production fell to a 40-year low. In March 1994, IPAA and a nationwide coalition of producers petitioned the Department of Commerce under section 232 of the Trade Expansion Act, calling for an investigation into the impact of crude oil imports on U.S. national security. The investigation was conducted following a drop in world oil prices that forced producers to shut-in wells and lay off thousands of employees. The multi-agency investigation concluded that oil imports threaten to impair U.S. national security.

While President Clinton accepted the Department of Commerce's finding, he proposed no specific new action, even though the administration had conducted studies before that investigation that support specific actions like preserving marginal well production, modifying the Oil Pollution Act of 1990, and lifting the ban on ANS exports. We are encouraged by commitments made since then by administration officials to have recommendations on several initiatives within the next few months.

Still, our experience over the past two years makes clear the need for congressional leadership on energy policy initiatives. We are hopeful that this hearing, for example, will compel the Clinton Administration to finally pronounce a policy position on lifting the ban.

Several other decisions on energy policy, promised in the administration's *Domestic Natural Gas and Oil Initiative*, have yet to be announced, despite what appeared to be clear deadlines in that document. We have concluded that only congressional leadership, like today's hearing, will compel the White House to act. Our plea to this committee is to keep the pressure on, keep moving forward on your energy policy agenda, and convert your ideas into legislative action. It is a matter of national security.

IPAA believes that lifting the ban on ANS exports will allow the U.S. to take its first step toward enhancing its national energy security.

**Conclusion**

The IPAA is gravely concerned about the national security impact of U.S. energy policies. We agree with the Department of Energy's conclusion that the ban on ANS exports can be lifted without injury to the U.S. national security or energy security.

In addition, America's independent producers support lifting the ban on ANS exports because it makes good economic sense:

- It will increase oil production in this country -- in Alaska and in California;
- It will increase jobs -- in the oil industry, in the shipping business, and in the dozens of service firms;
- It will increase tax and royalty revenues for state, local and federal governments; and
- It will improve the U.S. trade deficit.

Although the negative economic impacts of the export ban are most keenly felt by California independent producers, America's independent producers are united in their wholehearted support lifting the ANS export ban. In our view, this is not a regional issue. It is a matter of national security and energy security that Congress should address this year.

The IPAA is pleased to support H.R. 70.

Statement of U.S.Oil & Refining Co.
Before the House Resources Committee
Hearing on Alaska North Slope Exports
HR70
May 9, 1995

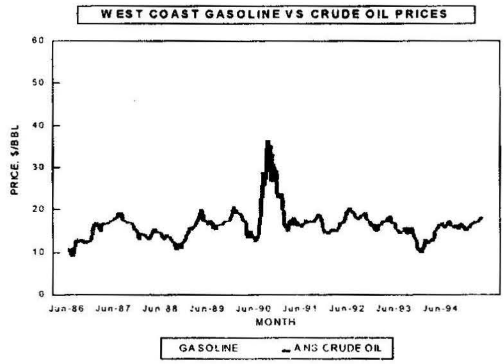
U. S. Oil & Refining Co. appreciates this opportunity to provide testimony for the record concerning the committee's analysis of the impact of lifting the ANS Crude Oil Export Ban. We are pleased that you are willing to consider the views of West Coast refiners and consumers on this issue.

Other interested parties will address the negative impact that ANS exports would have on our environment, our ship building industry, our national security and our international trade relations. We will restrict our comments to the impact ANS exports would have on the West Coast refining industry and the consumers we supply.

U.S. Oil & Refining Co. is one of three independent refiners in the Puget Sound. We have served the Pacific Northwest civilian and military markets for over 35 years with a full range of products including gasoline, diesel, jet fuel, bunker fuel oil and asphalt. Like most other West Coast refiners, U.S. Oil has, over the last 15 years, modified its refinery equipment to process primarily Alaskan North Slope crude oil. It now accounts for over ninety percent of our refinery raw materials.

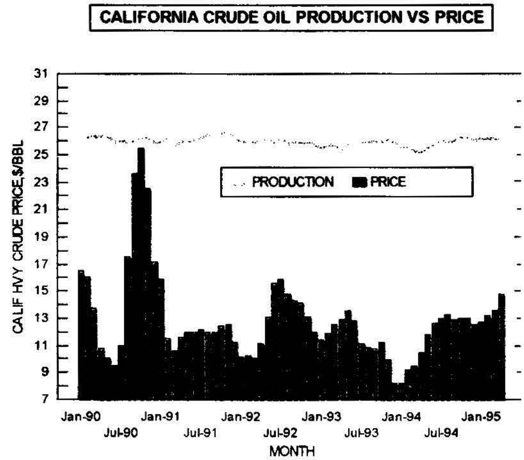
The major ANS crude oil producers and the State of Alaska have been the principal proponents of the exportation of ANS in their own self interests because of the additional income it would generate. If ANS is exported, the West Coast ANS supply will decrease and the price will increase. The amount of the price increase is subject to debate, but the DOE has estimated that it would be between $0.50/bbl and $1.60/bbl, or one cent to three cents per gallon. On a dollar basis that's 300 million to 1 billion dollars annually. This is the amount that the ANS producers and the State of Alaska stand to make if exports are allowed. These dollars will come directly out of the pockets of American consumers.

As opposed to what the DOE has asserted, this additional refining raw material cost will either be immediately passed on to the consumer or it will be passed on to the consumer after enough additional refining capacity goes out of business to allow the remaining refineries to increase prices and stay viable. The following graph shows the historical relationship between West Coast wholesale gasoline prices and ANS crude oil prices. The direct relationship is logical and undeniable.




Since 1983, fifteen of the original fifty-seven refineries on the West Coast have gone out of business due to poor refining margins. As opposed to what the DOE stated in their report, this is not a business that can absorb additional costs. In the past, the petroleum products produced by these shutdown refineries have been replaced by foreign imports. In effect we have been exporting our manufacturing capacity and jobs and importing the additional products required to expand our economy. This export of U.S. manufacturing capacity will only be exacerbated by exporting ANS crude oil to Far East refineries. We need to increase the competitiveness of our U.S. refineries, not burden them with additional raw material costs.

We would like to bring to your attention one additional point. The DOE and the California Independent Producers assert that a higher ANS price will result in an equivalent price increase in California heavy crude oil which, will in turn result in higher California crude oil production rates and increased employment in California. This claim cannot be substantiated with historical California production data. ANS pricing has a very minor impact on California heavy crude oil pricing. Even discounting this fact, the following graph of total California crude oil production and California heavy crude oil price shows that large fluctuations in price (much larger than the increase expected from ANS exports) have failed to impact production rates.




We urge you to consider this issue carefully and with the majority of Americans' best interests in mind. It is our sincere belief that the ban on ANS exports has benefited the U.S. economy and provided Americans with the security of refining 100% of this valuable natural resource. We encourage you to recommend the continuation of the ban on the export of Alaskan North Slope crude oil. Thank you for your time.

# Ultramar

Ultramar Inc.
P.O. Box 93102
Long Beach, CA 90809-3102
(310) 437-6795

## EXPORT OF ANS CRUDE OIL

**ISSUE** Congress currently is considering legislation that would allow the unrestricted export of Alaska North Slope (ANS) crude oil. Under existing legislation, ANS crude can only be produced for domestic use. The West Coast historically has been the market of choice for ANS producers, with the Gulf Coast being the secondary market.

**BACKGROUND** Ultramar Inc. is one of the largest independent petroleum refining/marketing companies on the West Coast. As an independent, Ultramar does not produce its own crude oil but, instead, must purchase its crude supplies through third parties.

The Company operates a state-of-the-art, high conversion refinery in the Los Angeles area, as well as over 300 retail service stations in California, Arizona and Nevada. Ultramar manufactures approximately a tenth of the gasoline produced in Southern California. However, this represents almost 20% of the product available to independent gasoline marketers in the region. These independent marketers typically sell their gasoline for less than the major, integrated oil companies do, which keeps prices lower for the driving public.

Because of the expense and uncertain availability of foreign sources of crude oil, Ultramar depends almost entirely on domestic supplies, including ANS. Ultramar's Los Angeles refinery processes approximately 70,000 barrels of crude oil per day, of which up to 30% is ANS or equivalent. The rest is California sour, heavy crude. Ultramar has modified its refinery to accommodate greater proportions of heavy crude, but lighter, ANS-quality crude will always be required. The most likely sources of replacement crude are South America and the Middle East, both of which present significant transportation cost increases, as well as politically driven supply uncertainties.

**IMPACTS** A major argument of export proponents is that, because the price of California crude oil is tied to the price of ANS, the higher value of ANS in the world market will, in turn, spur greater production of California crude oil, creating thousands of new jobs. Assuming that proponents of lifting the ban are correct in their assertion, Ultramar faces the double bind of having the cost of both of its major crude supplies increase. With refining margins at their lowest level in over ten years, Ultramar can ill afford to absorb the additional cost of crude. Consumers will pay more at the pump because refiners will be forced to replace domestic ANS crude with more expensive foreign oil.

**POSITION** Ultramar Inc. is opposed to the unrestricted export of Alaska North Slope (ANS) crude oil. Allowing ANS crude to be exported subjects Ultramar and its wholesale and retail customers to greater supply and price uncertainty.

STATEMENT OF PHILIP J. LOREE, CHAIRMAN
FEDERATION OF AMERICAN CONTROLLED SHIPPING (FACS)
SUBMITTED FOR THE RECORD OF HEARING OF THE
HOUSE RESOURCES COMMITTEE
ON H.R. 70
MAY 9, 1995

My name is Philip J. Loree. I am Chairman of the Federation of American Controlled Shipping (FACS) which is a maritime trade organization headquartered in New York. The membership of FACS comprises American based companies with an economic stake in owning, operating, managing, chartering, financing, or otherwise utilizing open registry vessels, and which share a common interest in preserving competitive open markets in international shipping. At the same time, some member companies own, operate, manage, charter, finance or otherwise utilize U.S. flag vessels, which operate primarily in the protected domestic trades.

Over the past thirty-six years our organization has consistently opposed efforts in this country and elsewhere to erect -- by governmental fiat -- artificial barriers to the free movement of vessels in international shipping. Thus, we are opposed to H.R. 70 to the extent that it would require any exports of ANS crude oil to be carried by U.S. flag tankers.

Such a cargo preference requirement is objectionable for many reasons, but primarily because it would represent the first instance in which the United States, long the champion of free and open international shipping trades for privately owned commercial cargoes, turned its back on its international commitments and instead resorted to maritime protectionism. Such a 180 degrees change in course for the world's largest user of international shipping services is particularly incomprehensible given the following considerations:

* ANS cargo preference would violate bilateral commitments to provide national treatment in more than 40 Treaties of Friendship, Commerce and Navigation with our trading partners, some of which have strongly stated their objections at the appropriate diplomatic levels and would be entitled to seek recourse in the future before the International Court of Justice.

* ANS cargo preference would make a mockery of morally binding multilateral commitments the U.S. Government has undertaken in good faith in the Organization of Economic Cooperation and Development and the World Trade Organization/General Agreement on Trade in Services.

* ANS cargo preference would be antithetical to the objective of various federal statutes which authorize retaliatory measures against foreign countries which seek to promote their national flag vessels and maritime interests by protectionist and discriminatory actions.

* ANS cargo preference would flash a green light to those Third World countries wishing to renew their claims to "cargo generator rights" for their exports (a euphemistic phrase meaning cargo preference to promote their national flag vessels) which the U.S. Government was instrumental in sidetracking during the early 1980's.

* ANS cargo preference would leave the door open for domestic proponents of cargo preference to seek once again the imposition of cargo preference on other privately owned commercial cargoes (including agricultural exports) and thus to overcome the defeats they suffered during the 1970's by reason of votes in the Senate and House and by reason of a Presidential veto.

The commitments and time-honored policy of the United States in favor of maintaining free and open shipping markets for privately owned commercial cargoes in international trade are not the result of some idealistic notion of free trade. Instead, they have been based on the reality that American exporters and importers account for roughly one-third of the world's maritime trade, and that their competitiveness in the global marketplace is dependent on their continued ability to select whatever vessels they need on the bases of price, service and availability, and without regard to any government imposed mandates based on flag, country of build, ownership, etc. Today, the unfettered right to choose vessels without regard to flag or other government imposed restriction exists for American cargo owners in the U.S. international trades. It exists because of the commitments and policies of the United States and its trading partners to resist any efforts by governments to promote their national flag interests by resort to cargo preference or other forms of protectionism.

Ships exist to serve trade, and not vice versa. U.S. flag ships do not have some kind of vested interest in carrying ANS crude oil outside the so-called Jones Act trades. In 1973, with the oil crisis still fresh in its mind, Congress authorized the building of the Trans-Alaskan Pipeline but banned exports of ANS crude, supposedly to lessen U.S. dependence on foreign oil. Notably Congress, in 1973 and in later reenactments of the export ban, never legislated that tankers carrying ANS crude must be U.S. registered. However, because of the Jones Act, shipments of ANS crude to other states and territories of the United States had to be transported in tankers that were U.S. registered, built and owned, but with a notable exception. The Virgin Islands is specifically excluded from Jones Act coverage, and thus for many years ANS crude oil regularly has been shipped to the St. Croix refinery on foreign flag tankers. For example, 31% of tankerborne ANS crude, measured in ton-miles, was transported by foreign flag tankers during 1993.

Also, it needs to be emphasized that the concern voiced by the Deputy Secretary of Energy about preservation of seafaring jobs (which presumably would not total more than a few hundred if the export ban were lifted) could be achieved without any resort to government mandated cargo preference. The private sector parties most interested in cargo preference (BP North America, the tankers owners and their unions) are entirely free to agree contractually among themselves to support lifting the ban in return for BP North America's binding commitment to use U.S. flag tankers to export its ANS crude. This practical solution was endorsed by an editorial in the March 14, 1995 issue of THE JOURNAL OF COMMERCE, the U.S. newspaper with special maritime expertise:

> "Indeed, this newspaper supported the same bill last year, although we now believe there's a better option. British Petroleum, a major player in Alaska and the largest potential exporter, could negotiate a binding contract with the shipping companies, agreeing to use their union-crewed vessels for exports in return for their support in repealing the law. Such an arrangement would preserve work for U.S. companies and crews and leave British Petroleum no worse off, since it is already willing to accept higher-cost U.S. ships for the privilege of exporting its oil.

"A private contract would be more in keeping with standard business deals between companies, their customers and their unions. And it would spare Washington from a charge of hypocrisy: supporting free trade agreements around the world but, for the first time, reserving a privately traded ocean cargo for its national fleet.

"The Alaskan oil export ban is an aberration in U.S. trade and energy policy, and it should be repealed. But Congress should not replace it with a law that sets an equally dangerous precedent for U.S. commercial policy."

In conclusion, it is urged that for the above reasons your Committee reject the proposed ANS cargo preference provision in H.R. 70 and instead encourage its proponents in the private sector to resolve the issue on a commercial basis.

Testimony of
Douglas P. Wheeler
Secretary for Resources
The Resources Agency of California

Committee on Resources
U.S. House of Representatives
May 9, 1995

Chairman Young and distinguished members of the Committee, my name is Douglas Wheeler and I am the Secretary for Resources for the State of California. I am here today representing Governor Pete Wilson and the people of California to address the very important issues related to the distribution of Alaskan North Slope (ANS) crude oil.

The continued economic recovery of California is critical to a strong national economy. In spite of recent earthquakes, fires, floods, and defense-industry cutbacks, many sectors of the State's economy are not only recovering, but showing strong growth. Unfortunately, one of our largest industries, the upstream petroleum industry, continues to suffer due to a depressed market. This is created, in part, by an oversupply of discounted crude oil being imported from the Alaskan North Slope. California's oil and gas industry and its related service industries have suffered thousands of job losses in the past decade and production has dropped significantly.

In the early 1970s, when the Trans-Alaskan Pipeline System was approved and compromise legislation banning the export of ANS crude passed, and in the early 1980s, the effects of Alaskan imports on the West Coast petroleum industry were masked by Arab oil embargoes and resultant escalating oil prices. However, after worldwide crude-oil prices collapsed in the mid-1980s as supply and demand shifts took place, the full impact of ANS imports became very apparent in California. Now, with the emphasis on the huge heavy-oil reserves and their more costly production requirements, the price received for California's oil becomes more important as lifting costs increase.

Not only have the depressed wellhead prices affected the oil producers, both California and the Federal Government have experienced significant reductions in tax and royalty income. State and local tax receipts from oil properties have declined significantly, and revenues from federal leases in California, both onshore and offshore, have declined due to the artificially low prices caused by ANS imports to the West Coast.

Recognizing the importance of this issue and the fact that they both support free trade, Governor Wilson sent a letter to President Clinton in March 1994 that called for the lifting of the export ban. The Governor further stated that this action would be consistent with the philosophy of the North American Free Trade Agreement.

This action was followed in June 1994 with a resolution passed by the Interstate Oil and Gas Compact Commission, which represents the governors of the twenty-nine producing states, that urged Congress and the President to expeditiously lift the ANS export ban. Furthermore, in September 1994, Governor Wilson, Governor Walter Hickel of Alaska, and Governor Edwin Edwards of Louisiana cosigned a letter to the U.S. Senate supporting the lifting of the export ban.

Crude oil pricing and industry-related employment will improve significantly only when there is long-term market stability. A permanent change in the export policy would have a positive impact on oil prices in California by helping to minimize the negative effects of a fluctuating market.

With annual oil and gas production valued at over five billion dollars and our great reliance on petroleum for California's energy needs, it is essential to the State's vitality that we maintain a healthy domestic industry. A diversion of Alaskan oil from California would improve significantly the marketability of the State's production, thereby increasing production, employment, and revenues to the State and Federal Government.

I appreciate your concerns regarding this important issue. California's economic health is important to all of us. Thank you for the opportunity to testify here today.

<u>Testimony of Dan Lawn, Riki Ott, Walt Parker, Stan Stephens and Richard A. Fineberg</u>
<u>before the House of Representatives</u>
<u>Natural Resources Committee</u>
<u>Concerning the Alaska North Slope Crude Oil Export Ban</u>
<u>May 9, 1995</u>

As Alaskans with combined experience of 100-plus years identifying and working to correct problems associated with production and transportation of Alaska North Slope crude oil, we oppose lifting the North Slope crude oil export ban because we believe lifting the ban would tend to destabilize the national oil delivery system, threaten national energy security and increase the risk of oil spills from tankers and a pipeline in a state of disrepair. The April 7 Alaska meeting arranged by the Department of Energy and the State of Alaska did not resolve or even lessen our concerns.

<u>National Economic Concerns</u>

In earlier correspondence with the Department of Energy (see letter from Fineberg to Secretary O'Leary, attached to letter to President Clinton, also attached) we challenged key assumptions and conclusions in the June 1994 DOE report, "Exporting Alaska North Slope Crude Oil." Our concerns, largely unanswered, tend to discredit DOE's conclusions of net economic benefits.

For example, DOE appears to have inexplicably overstated gains to Alaska and understated federal tax gains. We inquired about the bases for apparent inconsistencies in reported results and were told — not too convincingly — that the model that produced these results was, in the estimation of its authors, correctly constructed.

Further, DOE stated that the resulting increases in revenues from exporting North Slope oil may stimulate production in Alaska through investment (DOE report, page E-1) and presented a section on increased production rates resulting from the assumption that <u>all</u> incremental revenues for the producers is invested in Alaska. But the report also concedes (in a footnote) that the major producers would not necessarily reinvest all incremental revenue in Alaska.

As Senator Patty Murray has pointed out, lifting the export ban would jeopardize thousands of jobs of people employed in the extensive Pacific Northwest transportation and shipyard repair infrastructure that grew in response to and depends on use of U.S. hull ships to transport North Slope crude oil to U.S. ports ("Alaska Oil Exports: A Crude Money Grab," <u>Seattle Times</u>, 2/22/95).

Finally, we view with suspicion assurances by British Petroleum (BP), the primary proponent and largest benefactor of lifting the export ban, that U.S. flagged vessels with U.S. crews will be used. BP has a long trail of broken promises and dodging statutory duties in its Alaska operations, as summarized in "The Promises Issue, Commitments and Representations by Alyeska and Its Owner Companies Regarding the Trans-Alaska Pipeline System" (Parts I and II, March 1994 and January 1995, attached). In this situation, we oppose repeal of the export ban unless and until ensured that BP does not plan to delay compliance with tanker retrofit mandate of Oil Pollution Act of 1990 (OPA'90) and that BP does not plan to use the shift in markets to bring additional foreign-flag tankers into the Trans-Alaska Pipeline System (TAPS) trade.

<u>Threat to National Energy Security</u>

Alaska currently provides about 25% of U.S. domestic oil production and is likely to be one of the nation's top domestic producers well into the next century. Exporting North Slope oil could <u>increase</u> rather than decrease our reliance on foreign oil, especially in light of the 1990 President's 1990 decision to extend the moratorium on OCS activities off Florida, California and other sites in response to public pressure.

As we stated in our earlier correspondence to President Clinton, we are also concerned that lifting the North Slope crude oil export ban will be counterproductive to ongoing efforts by federal, state and private parties to improve regulatory oversight and repair of TAPS. In our view, BP, as the majority owner and operator of TAPS, is chiefly responsible for the dangerous condition of the pipeline, as determined by BLM and internal Alyeska audits, because BP has allowed the virtual elimination of pro-active quality control of the pipeline systems. A key reason for this situation is the historic and ongoing harassment and intimidation of inspectors, despite promises to desist made by Alyeska President David Pritchard and owner company representatives during Congressional oversight hearings in 1993.

Increased Risk of Oil Spills

The export of North Slope crude raises several environmental concerns. First, even if the oil is exported on U.S. tankers, the TAPS fleet is in a reprehensible state of disrepair and is causing delays in loading at the Valdez marine terminal (see, for example, "Tanker troubles factor in throughput slowdown," Valdez Vanguard, 1/25/95). The oil industry has consistently delayed improvements to ships and operating standards, with the result that the TAPS fleet is far from that envisioned in OPA'90 and may be in worse condition than at the time of the 1989 *Exxon Valdez* spill (see "Status of Prevention Measures in the Valdez - West Coast Oil Tanker Traffic," attached).

Second, exporting North Slope crude means tankers will be traveling waters that are relatively free of tanker traffic and which experience some of the worst weather conditions in the North Pacific. Lifting the crude oil export ban without specific guaranteed improvements in the TAPS marine transportation system and additional spill prevention requirements would subject the Alaska coast to increased risk of spills.

Third, replacing Alaskan oil with foreign imports means increased foreign tanker traffic in west coast waters. In general, foreign tankers are in even worse condition and their operating standards more lax than that of the TAPS fleet. Increasing foreign flag traffic therefore would increase the risk of oil spills, as aptly noted by Senator Murray.

Additionally, it is our belief that it is a mistake to open another supply route that will increase pressure on the aging Trans-Alaska Pipeline, which continues, despite intensive oversight efforts, to languish in disrepair.

In summary, we believe that the serious economic and environmental issues associated with the proposal to lift the North Slope crude oil export ban were dismissed without due consideration by the DOE. The hypothetical and illusory gains touted by the advocates of lifting the ban seem to be based on shaky, undocumented and even contradictory assumptions. Once again, Alaska will be subject to increased risk, while the primary proponent and benefactor of lifting the ban has a long and well documented legacy of cutting economic, environmental and public safety corners in its own self-interest. The April 7 Anchorage meeting hosted by the Department of Energy and the State of Alaska was flawed by the lack of time to examine and deal with complex issues in an appropriate manner and lack of specified follow-through mechanisms. Without questioning the good will of the convenors, we must tell you that we are restraining ourselves from concluding that this was at best a token effort, at worst another sham.

Finally, we note an apparent contradiction between the proposal to lift the Alaska crude oil export ban, supposedly because of surplus production, and the simultaneous proposal to drill in the Arctic National Wildlife Refuge, supposedly to reduce our dependence on foreign oil (see "Critics say ANWR, export arguments at odds," Anchorage Daily News, 2/20/95, attached).

Recent events have not reduced our previously stated concerns that lifting the export ban will benefit BP to the detriment of national energy security and U.S. jobs and will result in increased environmental risk to Alaska and the nation's west coast.

s/ Riki Ott, Ph.D.
Riki Ott, Ph. D.
P.O. Box 1430
Cordova, AK 99574
(907) 424-3915

s/
Dan Lawn
P.O. Box 188
Valdez, AK 99686
(907) 835-5410

s/ Stan Stephens
Stan Stephens
P.O. Box 1297
Valdez, AK 99686
(907) 835-4731

s/
Richard A. Fineberg
P.O. Box 416
Ester, AK 99725
(907) 479-7778

s/ Walt Parker
Walt Parker
3724 Campbell Airstrip Rd.
Anchorage, Alaska 99504
(907) 333-5189

2/20/95

# Critics say ANWR, export arguments at odds

By DAVID WHITNEY
Daily News reporter

WASHINGTON — As the Alaska congressional delegation presses simultaneously to lift the ban on North Slope oil exports and open the Arctic National Wildlife Refuge to drilling, it risks raising a conflict that could undermine both.

On the oil-exports issue, the argument is that there is so much North Slope production that it can't be absorbed on the West Coast. By allowing the export of the surplus, Alaska and the oil producers will reap huge financial windfalls by not having to spend money shipping it to the Gulf Coast.

Murkowski

But the delegation's argument for opening the refuge's coastal plain is that the United States is facing a national security risk from oil imports, which now exceed 50 percent of consumption. The country simply must have the refuge's oil if it's going to protect itself from exploitation by foreign suppliers.

So it's OK to export oil because there's too much being produced but there's a national imperative to drill for more because the nation isn't producing enough?

That's the question that many in Washington are beginning to ponder as the two issues get more attention. And opponents of refuge drilling and oil exports are starting to raise the issue themselves, only they're calling it hypocrisy.

"They can't talk out of both sides of their mouth like this," said Scott Kearin.

Please see Back Page, EXPORTS

# EXPORTS:
## Oil questions

Continued from Page A-1

executive director of the Alaska Wilderness League.

The conflict is so potentially defeating that Arctic Power, a grass-roots organization to open the refuge's 1.5 million-acre coastal plain, steers completely away from the oil-exports issue.

"It's why we don't work on exports," said group's executive director, Debbie Reinwand.

The Alaska delegation doesn't see a conflict.

Sen. Frank Murkowski, chairman of the Senate Energy and Natural Resources Committee, said the time line for bringing wells into production in the refuge is so long that even if drilling were authorized today, it'd be a dozen years or more before the first drop reached the trans-Alaska pipeline.

"By that time, Prudhoe Bay production would be (down) from 1.6 million barrels to only 400,000 or 500,000 a day," Murkowski said. "We're talking about replacing it. If we don't develop ANWR, the oil on the West Coast is going to come from Colombia and it's going to come in on foreign vessels."

Besides, said Sen. Ted Stevens, drilling in the refuge and exporting oil are separate issues. And the issue raised by the 22-year-old ban on North Slope exports is the abridgement of the state's constitutional rights.

"There is no other restriction in the law today that prevents a resource from one state from being sold except in the other 49 states," Stevens said. "This is the only one on the books."

Anchorage oil consultant Roger Herrera said it's easier to avoid the conflict if the national-security argument for drilling the refuge isn't emphasized.

"If you want to argue that opening ANWR is a national security issue, by all means do so," said Herrera, who once was BP Exploration's lead development lobbyist in Washington and now does the same thing for Arctic Power.

"I'd argue it's more of an economic issue," Herrera said.

Even if oil drilling in the refuge refills the trans-Alaska pipeline to its capacity of 2 million barrels a day, by the time that production is available "presumably the growth on the West Coast will be such that all of it will be needed." That will mean less oil imported in the country and therefore the cost of imported oil, which now is roughly 25 percent of the balance-of-trade deficit, would be lower.

But if all the oil isn't needed on the West Coast, Herrera said, the surplus could be sold to Japan and that also would help lower the balance-of-trade deficit. Either way, Herrera said, the economic impact would be about the same.

Herrera said during a recent trip to Washington that some congressional offices were beginning to raise the conflict question. The problem, Herrera said, is that his explanation takes a bit of time to explain and politicians often don't have the time to listen.

But those who don't want to see North Slope oil exported or the arctic refuge developed are delighted by the opportunity to steer the delegation's dual strategy for helping the North Slope's flagging oil industry toward a collision course.

Opponents of oil exports are asking how the delegation can argue with a straight face that the refuge should be drilled because of a shortage of domestic production.

And opponents of opening the refuge are asking how the delegation can honestly say the nation doesn't produce enough oil when it wants to export large quantities of what's being pumped out of the ground now.

"It doesn't make any sense to say we need to stem the importation of oil and call for shipping it to Japan at the same time," said Pam Miller of the Wilderness Society. "We're going to be pointing this out."

President Bill Clinton
1600 Pennsylvania Avenue
Washington, D.C. 20510

*Via Fax*

August 2, 1994

RE: Exporting Alaska North Slope Crude Oil

Dear President Clinton:

As Alaskans with combined experience of 100 years of identifying and working to correct problems associated with production and transportation of Alaska North Slope crude oil, we are deeply concerned that serious environmental and economic issues associated with the Trans-Alaska Pipeline System (TAPS) are being dismissed without due consideration by your Administration. We believe that this serious oversight stems in part from the lack of a cabinet-level position to raise these issues since Interior Secretary Babbitt has recused himself from TAPS matters, and from the Alaskan Congressional delegation's long history of dismissing concerns that run counter to the North Slope oil producers.

Recently three of us met with Bob Armstrong, Assistant Secretary of the Department of Interior, Mike Dombeck, Acting Director of the Bureau of Land Management, Debra Williams, Special Assistant to the Secretary of the Interior for Alaska, Tom Allen, Director of the BLM Alaska Office, and staff from Congressman George Miller's and John Dingell's offices. We discussed many concerns regarding the present condition of the Trans-Alaska Pipeline System (TAPS), foremost among them being the federal government's apparent inability to regulate the TAPS.

<u>We strongly believe that lifting the crude oil export ban at this time will be counterproductive to ongoing efforts by international, federal, state and private parties to improve regulatory oversight of these trans-national oil companies.</u>

For example,

- <u>Existing Environmental Threats Posed by TAPS Pipeline</u>

No apparent consideration has been given by DOE to the already existing environmental threats posed by the present condition of the TAPS documented in the BLM audit conducted by Owen Thero and the follow-up internal Alyeska and BLM audits. In our view, BP, the primary proponent for lifting the crude oil export ban, is chiefly responsible for the dangerous condition of the pipeline. As the majority owner and operator of the TAPS, BP has virtually eliminated any meaningful quality control of the pipeline, leaving it in an indeterminate condition. One of the key reasons for this situation is the historic and ongoing harassment and intimidation of inspectors, a practice which still continues today, despite promises to desist made by Alyeska President David Pritchard during Congressional oversight hearings in July and November 1993. We are concerned that lifting the crude oil export ban will be counterproductive to the DOI's ongoing efforts to regain federal control and oversight of the TAPS.

- North Slope DR&R (Dismantling, Removal & Restoration) Funds

Exxon, a major North Slope oil producer, is currently in federal tax court where the IRS is challenging Exxon's application for a multi-billion dollar tax deduction for tax years prior to 1984 for future North Slope DR&R costs. In 1984, the federal tax law was changed to clarify that these monies were NOT to be used for tax credits. BP and Arco are expected to eventually wind up in federal tax court over this same issue. The total tax credit for all North Slope producers is estimated to be between $18 to $24 billion, which means, assuming the maximum corporate tax rate, approximately $6 to $8 billion realized to the U.S. Treasury. Collection of legitimate income tax would do much more to reduce the federal deficit than hypothetical and illusory U.S. Treasury gains touted by the advocates of lifting the export ban.

- TAPS DR&R Funds

In 1985 a negotiated tariff settlement between TAPS owners and the State of Alaska was approved by the Federal Energy Regulatory Commission (FERC). A little noticed provision of that settlement established a collection schedule for future dismantling, removal and restoration of the TAPS. TAPS DR&R was grossed up at the then current corporate income tax rate of 46%. However, in 1986, the tax law was reformed to reduce corporate income tax to a maximum of 34%. Pipeline owners have continued to collect the DR&R money, including tax, at the 46% rate, at once profiting and shorting the federal government on income taxes and the State of Alaska on taxes and royalties, while at the same time building up an estimated four billion dollars of off-book, tax-paid income for the TAPS owners (see enclosure).

Under FERC procedures, the TAPS tariff agreement should be revisited because this new information indicates that, due to excessive DR&R collections, the tariff no longer serves the public interest. A revised settlement could redirect the unplanned and previously unrecognized industry profits from DR&R collections to an environmental trust. That trust could be used for such items as tractor tugs in Prince William Sound and a vapor recovery system at the marine tanker terminal, in addition to the intended DR&R. Because the arguments to lift the export ban rest on shaky assumptions about North Slope profits, this element of the hidden Alaska North Slope profits should be addressed before a determination is made that it is necessary to lift the export ban.

- TAPS Tanker Traffic Regulation

Walt Parker, chair of the Alaska Hazardous Substance Spill Technical Review Council, recently stated during a panel discussion on spill prevention at the annual meeting of the States-British Columbia Oil Spill Task Force that TAPS "tankers are subject to fewer spill-prevention regulations than when the [Valdez] terminal opened in 1977" (Anchorage Daily News, enclosed). Walt Parker's concerns parallel those of author Eric Nalder in his recent book "Tankers Full of Trouble" (1994 Grove Press, NY). The U.S. Coast Guard's budget continues to be cut, limiting its abilities for spill prevention tasks: instead, the American public, industry and state and federal governments spend billions of dollars responding to and studying the aftermath of oil spills. Lifting the crude oil export ban without improvements in tanker traffic regulation and additional spill prevention requirements such as tractor tugs is throwing open the door to more spills in Prince William Sound. Allowing additional foreign flag tankers into the TAPS trade would further invite spills in the Sound.

Further, Dr. Richard Fineberg, a former policy analyst on North Slope oil and gas issues for Alaska Governor Steve Cowper, has advised Secretary O'Leary that the DOE's report "Exporting Alaska North Slope Crude Oil" does not provide sound bases for its fundamental conclusions or the Department of Energy's recommendations (see attached).

In our opinion, it would be a very serious and regrettable decision to lift the crude oil export ban at this time. We urge you to consider the full ramifications of lifting the export ban to the people most at risk from this decision. If we can be of any assistance to you or your staff, please contact us. Full documentation of our concerns is available immediately upon request.

Sincerely,

Riki Ott, Ph.D.

Riki Ott, Ph.D.
P.O. Box 1430
Cordova, AK 99574
(907) 424-3915

Dan Lawn
P.O. Box 188
Valdez, AK 99686
(907) 835-5410

Stan Stephens
P.O. Box 1297
Valdez, AK 99686
(907) 835-4731

Richard A. Fineberg, Ph.D.
P.O. Box 416
Ester, AK 99725
(907) 479-7778

Walt Parker

Walt Parker
3724 Campbell Airport Rd.
Anchorage, AK 99504
(907) 333-5189

enclosure: 7/28/94 letter from Fineberg to Secretary O'Leary

cc: Hazel O'Leary, DOE
Bill White, DOE
Bob Armstrong, DOI
Debra Williams, DOI Special Assistant in Alaska
Mike Dombeck, BLM Washington, D.C.
Tom Allen, BLM Alaska
Congressman John Dingell
Congressman George Miller

From the desk of **Richard A. Fineberg**
**Ester, Alaska 99725**
**P.O. Box 416**
Phone / Fax (907) 479-7778

*Via Fax*

July 28, 1994

Secretary Hazel O'Leary
Department of Energy
Washington, D.C.

Dear Secretary O'Leary:

Re: Exporting Alaska North Slope Crude Oil

I read with great interest and disappointment your department's report, "Exporting Alaska North Slope Crude Oil." As a former advisor to the Governor of Alaska on oil and gas issues who subsequently prepared several reports for the Alaska State Legislature on North Slope economic issues, I had hoped that your report would answer important many questions about Alaskan oil development. I was disappointed because the report's conclusions appear to be critically dependent on buried, dubious or false assumptions that undercut the validity of the report's conclusions. For example:

√ The report asserts that Alaska would gain $700 million to $1.6 billion in revenues between 1994 and 2000 if the ban were lifted, and that under low-price scenarios most of that gain would come in 1994-96. Having prepared numerous reports on North Slope profits, production prospects and Alaska revenues since leaving my position in the governor's office in 1989, I must say that these poorly explained estimates appear to be highly implausible. Moreover, 1994 is nearly two-thirds over and if the ban were lifted, ANS sellers and refiners would then require some time to revise contracts, arrange shipments and reconfigure their refinery outputs. With most of 1994 gone, how much of this theoretical amount remains to be captured and how much is already lost to history? I cannot make that calculation because I read the report from cover to cover but could never discover the bases for the $700 to $1.6 billion estimate.

√ Although there is a known, fixed relationship between federal income taxes and state revenues on ANS production at the DOE study prices, the DOE report inexplicably estimates federal gains to be well outside that predictable range, at $99 to $188 million. This leads me to believe the DOE report either omitted federal income taxes or did not account for them correctly. In either event, it would appear that producer gains (and, consequently, jobs) may have been over-stated because federal tax effects were not considered, and that federal gains may have been understated. This is precisely the kind of ambiguity that would lead a careful reader to view with great skepticism the conclusions of the DOE report.

√ Regarding incremental North Slope production that might result from lifting the ban, your authors note that "If exports of ANS crude oil raise crude oil prices or save on costs of shipping and handling, the resulting revenues may be invested in oil production-related projects in the geographical areas where the new profits are made. This is particularly true for small companies, but less so for the major integrated companies." (Report, page E-1.) In a footnote, the report states that "The large ANS producers made it clear in our interviews that they . . . would not necessarily reinvest in Alaska the incremental revenues made as a result of exporting ANS oil." The same section presents increased production rates resulting from the "reasonable" assumption "that all incremental revenues for the remaining producers' share is invested in ANS crude production activities that add to reserves" (major producers Arco and Exxon — 45% of ANS production — are factored out because their oil is transferred rather than sold, leaving BP as the remaining major producer). Because major producer BP owns 91% of the remaining production, by its own terms the report's key assumption on reinvestment is clearly not reasonable.

√ The report notes that data "imply that reserve additions in the range of 200 to 400 million barrels could be produced b the investment resulting from exports of . . . ANS crude. By comparison, [c]urrent reserves at Endicott and Point McIntyre, major secondary fields on the North Slope, are 262 and 356 million barrels respectively." (Report, at p. 12 and p. 50). For some reason, the report makes no reference to the largest major secondary field on the North Slope, Kuparuk, whose remaining reserves are three times that of the two fields named in the report. Is there a reason for this? The report's second Kuparuk omission referred the reader again to Appendix E — the same place at which the dubious assumptions noted above are supposed to be demonstrated; nothing in that appendix told me whether Kuparuk was included or excluded from your analysis, or why it was omitted from the text.

I am limiting myself here to clearly demonstrable examples because time is short; some in your department seem to be rushing toward a decision on BP's behalf. I write, therefore, to make sure that you are aware that the DOE report released June 30 appears to be laced with significant technical defects. These shortcomings make it difficult for me to accept the conclusions one must adopt to assume the economic benefits your report claims the United States will realize from lifting the ban. The reader is asked to believe that California refinery acquisition costs can go up without affecting consumer gasoline prices, and that ANS will realize a premium in Japan because its product slate matches Japan's needs. While I am not prepared to state that such heroic assumptions are invalid, it is my opinion that this report fails to demonstrate them. These assumptions are contradicted by the Coalition to Keep Alaska Oil's June 1994 report, "Consequences of Exporting Alaska North Slope Crude Oil." I do not presume to know who is correct. But I must tell you that the latter report is strikingly accurate in those areas with which I am familiar. More important, the challenging report is much less dependent on the kind of Herculean and undocumented assumptions required to reach the conclusions in the DOE report.

The latter report also sets up the background for raising environmental concerns that are casually dismissed by the DOE report. In particular, California supply ports, pipelines, refinery storage facilities and refinery operations appear to be at risk. And, as my colleague Dr. Riki Ott of Cordova, Alaska, has previously advised you, the DOE report also dismisses serious environmental concerns in Alaska concerning the integrity of the Alaska pipeline and marine transportation delivery system. As a long-time Alaskan, I share Dr. Ott's interests in the environmental issues the DOE report fails to address. But it is the manifest shortcomings in the DOE economic analysis that lead me to ask you to base your decision on better data than the report you released June 30.

In sum, I do not believe your department's report provides sound bases for its fundamental conclusions and recommendations. In view of the undiscussed problems associated with lifting the export ban and the absence of convincing support for taking this action, I oppose lifting the ban at this time and request that you address the implications of the DOE report's serious defects before making your decision.

Sincerely,

Richard A. Fineberg

ISBN 0-16-047413-2
90000
9 780160 474132