

# **Editorial — Alcan Route has Greater Long-range Economic Benefits**

*Editor's Note: The following editorial was written by Alaskan economist Jack O. Hakkila at the request of the Tundra Times and represents the views of this newspaper.*

*By JACK O. HAKKILA*

Current economic thought on post-pipeline economic activity in Alaska is centered around the great gas line debate. Recent opinions by the Federal Power Commission and Justice Berger in Canada seem to favor the Northwest Energy Corporation's proposed Alcan route. Substantial opinion in Alaska still exists for the El Paso line. This opinion is for many a matter of dogma. At the best it is a show of patriotism. At worst it excludes any show of self-determination for Alaskans in their own economic destiny.

At issue is not the route itself but what will be done with the natural gas which is shipped down the pipeline. Natural gas has become over the past thirty years a cheap source of energy for Americans, even more critical as each year passes by of the current 'energy crisis.' Alaska has an abundance of natural gas as a by-product of oil production on the North Slope. That there is an interest in having this gas reach the consuming market in the lower forty-eight states is understandable. At the same time the natural gas is the raw material for a large industry, the petrochemical industry. Ethylene, the basic feedstock for petrochemicals will be produced as a by-product of gas production. An important question arises for Alaskans as to where this gas may best be used to produce petrochemicals. If the gas is shipped outside it is worth a much lower price than if it is used as a feedstock for the petrochemical industry in Alaska. One gas-line company has been offering to work hand in hand with Alaskans to develop a petrochemical industry here. That company has stressed to Alaskans that one-eighth of the petrochemicals coming down the gas line belong to Alaskans. This one-eighth, part of our royalty income, is worth a great deal more processed into petrochemicals than it would be shipped out as gas.

Petrochemicals are used today to produce a variety of products. Ethylene alone is the basic feedstock to produce aspirins, synthetic rubber, plastic pipe, and many familiar articles in every household, on and in the automobiles we drive, and industry to include a substantial per centage of the aerospace budgets. Some fifteen per cent of the aerospace budget is spent on petrochemicals or petrochemical products. The value of ethylene may be increased as much as six hundred times by being processed into petrochemical products.

(Continued on Page 11)

# Greater economic benefits ...

(Continued from Page 2)

An important question arises then as to the best location of the petrochemical industry. The industry has traditionally been located close to the source of production. The large petrochemical plants in the United States are located close to the oil fields in Texas.

Another important economic question is the best scale of plants for economic production. Today's economic scale for a petrochemical plant is around one billion pounds of ethylene production per year. Such a plant would cost approximately one billion dollars to build in the lower 48 states.

The location of such a large industry is an important question deserving more than cursory analysis. In proposing the location of petrochemical plants in Alaska this same company is forecasting that it will be feasible to build a plant of this size for each of the first ten years of gas line operation. And this company is advocating the construction of these plants in the Tanana Valley. Yes, the company advocating the construction of a domestic petrochemical industry to be located in the Interior of Alaska is the Northwest Energy Corporation.

This is not just another reason why Alaskans should give the Alcan route a close look. In addition to the earthquake hazards presented by the El Paso route, the unfavorable reception by Canadians to development across the Mackenzie Valley, and the favorable recent opinion of the Federal Power Commission, the most important reason for locating a route along the Alaska Highway is the long term economic growth for the Interior of Alaska. What's more, petrochemical develop-

ment also is patriotic!

Now another gas line company has entered the petrochemical debate. This other company claims that petrochemicals may be produced in southern Alaska more cheaply than in the Interior. Modular construction is claimed to be forty per cent cheaper there than in the Interior. This is another example of sleight of hand in ignoring the basic economics involved. Construction costs are not the long run economic determinant of the viability of a business. What El Paso pipeline company is not telling the public is that the very same economics that justify the location of a petrochemical industry in the interior of Alaska, also justify the construction of a railroad through Canada to America's Midwest. The cost of such a railroad has been estimated by the Tanana Valley Community College petrochemical engineering staff to be around one billion dollars. Such a railroad is not only a key to the success of the petrochemical industry, but will open up Alaskan mineral development as well. Lest there be any confusion over the overall economic justifications, petrochemical products produced in the interior and landed in the Midwest would be cheaper than produced at any other location and shipped by any other route. This advantage far outweighs any short term effects of savings in modular construction in the building of the first plant.

It is time that Alaskan Native corporations, the permanent fund committee and all Alaskan financiers take a good hard look at building a pilot petrochemical plant so that we may be ready to make the necessary investments when the gas line is built. In the meantime a domestic petrochemical plant in Interior Alaska is just one more factor weighing in the Alcan route's favor.