An RDC Editorial

"Our Fair Share" of Oil Profits

A frequently heard phrase when discussing Alaska's special oil and gas corporate income tax and the proposed "backstop" tax is "our (Alaska's) fair share."

The argument favoring the ever increasing taxes (13 times since 1969) on the oil industry generally begins with the statement that Alaska owns the oil.

However, between 1965 and 1969, Alaska sold to oil companies the rights to the oil on leases to which they competitively bid at bonus and royalty rates accepted by the state. In the famous 1969 lease sale, the successful bidders paid the state an astounding $900 million in "bonus payments" in addition to the standard one-eighth of gross value retained royalty. This royalty share is not affected by investment costs or drilling and operating expenses. It is automatically pegged to the oil's value.

It is important to remember that most of these contracts were made and signed by the state and oil companies before anyone knew if commercial quantities of oil even existed under the leases.

All the bonus payments and millions of investment dollars were risked before a way to transport the oil to market was available.

The point here is that it was private investors who took the risks, not the state. Just as companies which bought Gulf of Alaska oil leases (where the exploratory wells turned out dry and are a major loss) have no right to ask the state for their bonus payments to be returned, the state should not have a right to effectively "change the terms of the contract" in order to increase its share of the Prudhoe Bay production.

Total state tax burden on the oil companies has increased roughly 1400% since 1968. (That is the increase comparing total taxes which the oil companies would have paid Alaska in 1981 if they were taxed under laws in effect when Prudhoe Bay was discovered, to the tax laws of today.)

For every dollar of incremental value on Prudhoe Bay oil, producing oil companies receive only nine percent while the state and federal governments take more than 91 percent. In 1978, the first year of full production, Alaska's royalty share of oil was worth approximately $200 million. In 1981, the state's share is estimated to be worth $1,460 million. The bulk of that increase is a result of price decontrol. To say that Alaska would not get its "fair share" without increasing taxes is obviously false.

Alaska's increase tax burden on the oil industry is far from being fair and equitable. It is nothing more than an "appropriation" (which Webster defines as "making something one's own... without authority or with questionable right"). Even state governments must be guided by rules and principles. The state has the same obligation to act in good faith as corporations and individuals. If not, the rights of us all are severely jeopardized.