

## **Alaska: Yesterday, Today and Tomorrow Oil Discovery and Development**

The discovery of the 15 billion barrel oil field at Prudhoe Bay in 1967-8 transformed Alaska. Since then, taxation of oil production on the North Slope has contributed 80 percent of the state's general fund revenue. The state is dependent on oil production to operate. But as oil continues to be pumped, the pressure in the oil deposit drops, and it becomes more and more difficult to extract the oil. The rate of production declines as does the amount of oil left to be pumped.

For example, at the Prudhoe Bay peak of production in 1991, 2 million barrels a day were pumped. (About 12 billion total barrels will eventually be extracted). Today, less than one million are pumped daily. As the rate of production declines so does the state's revenue, leaving us with a huge fiscal challenge.

Production at Prudhoe Bay will last another twenty years, and longer at some of the other North Slope fields. The level of oil production will probably not fall below 500,000 barrels daily. But since the late 1990s, the money coming from oil taxation and all other revenue sources has not been quite enough to pay all state expenses. Only when the price paid for crude oil has been very high, has the state had enough money to balance its annual operating budget. The legislature and the governor have taken money from the Constitutional Budget Reserve (CBR) to make ends meet. But the CBR will eventually run dry. The challenge for Alaskans is how to balance state costs in the face of declining revenues.

The annual state budget can only be cut so far before major services, such as schools, road maintenance and emergency medical response, can no longer be fully funded. In 2004 the Alaska Permanent Fund held \$28 billion. Alaskans have been unwilling to fund state operating expenses by using any of the Permanent Fund. But Alaskans have to face the question of whether to use some part of the Fund for state government in the future as state revenue continues to decline.

Another question Alaskans will have to face is how to encourage oil and natural gas producers to invest money in the state in order to explore for additional deposits. The state must also decide how to encourage the oil and gas industry to develop the deposits they have already found. There is a significant amount of natural gas on Alaska's North Slope. But it cannot be developed until the world price and the world supply means that developers can make a profit. A new pipeline for natural gas will be necessary to transport the gas to market. Alaskans will have to decide what sort of encouragement to provide, possibly in the form of low taxes, or bonus payments to the industry (from the taxes collected) as a reward for their development. These are big challenges which

can't be fully understood without knowing the historical background that explains where they came from.

How will knowledge of Alaska's exploitation by the copper mining industry soon after the turn of the 20th century and by the salmon canning industry until statehood help Alaskans to choose natural resource policies for Alaska's development in the future?