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Report shows oil industry profits are consistently high in Alaska, even when prices are low

An analysis by a Fairbanks-based economic consultant indicates Alaska's North Slope oil industry has been highly profitable in recent years, even at very low oil prices.

Dr. Richard Fineberg, in a report released today by the Prince William Sound Regional Citizens' Advisory Council, concluded the industry made profits of over \$5 billion on the North Slope in 2004, when oil prices averaged about \$39 a barrel.

But the industry made more than \$800 million even in 1998, when oil prices averaged less than \$13 a barrel, according to Fineberg.

The citizen oversight group commissioned the report to address claims by the oil industry that it needs to reduce certain environmental protections in Prince William Sound, or is unable to add new protections, because of financial reasons.

"This report indicates the industry can easily afford to do things right in the Sound, as we've always maintained," said John Devens, executive director of the citizens' council. "Alaskans don't need to worry that asking the industry to protect our environment will drive it out of the state."

The council board voted to commission the \$25,000 report in September 2004 and Fineberg began his work a few weeks afterward.

The council planned to pay for the report with funds it collects under a long-term contract signed with Alyeska Pipeline Service Co. shortly after the 1989 Exxon Valdez oil spill. However, eight months after the board vote, Alyeska demanded the council not use contract funds to pay Fineberg for the report and requested the matter be submitted to arbitration. Last week, as provided for in the contract, the council filed suit in Valdez state court to defend its right to use contract funds for the profits review. The Alyeska contract provides almost all of the council's operating income and guarantees its independence from the oil industry.

"We've realized that understanding the industry's finances is central to our mission of seeing that they do everything possible to prevent another Exxon Valdez," Devens said. "Our bottom line is, we have to see their bottom line in order to understand their behavior and influence it for the better where environmental protection is concerned. That's why we commissioned this report, and it's why we're asking the courts to establish once and for all that this type of analysis is within our mandate."

Dr. Fineberg's 98-page report, "The Profitability and Economic Viability of Alaska North Slope and Associated Pipeline Operations," is available for download at www.pwsrccac.org, the council's web site.

Key findings of the report include:

- Oil industry profits on the North Slope were \$5.5 billion in 2004, when prices averaged \$38.84 a barrel. That's about \$15 million a day, or \$625,000 an hour.
 - Even in 1998, when prices averaged \$12.55 a barrel, the industry made \$825 million on the North Slope.
 - At prices of \$50 a barrel, the industry's North Slope profits would amount to about \$5.7 billion a year.
- Those findings put into perspective some of the industry's costs for environmental protection in Prince William Sound, and its claims that cost reductions are needed:
- The existing tug system costs about \$25 million a year to operate, according to Alyeska. At \$15 million a day, that is about 40 hours worth of profits.
 - Industry representatives, including Alyeska's president, have discussed cutting the tug fleet. Eliminating one tug could save about \$2.5 million annually, or 4 hours of profits.
 - The council has long advocated the installation of vapor controls on Alyeska's ballast water treatment facility, the single largest remaining source of cancer-causing hydrocarbon emissions at the Valdez tanker terminal. According to engineering estimates obtained by the council, the cost of controlling emissions from the two largest sources within the treatment facility is only about \$1.5 million, just over 2 hours worth of industry profits.

"Closing off the whole area of profitability to us would be a kind of nuclear option," Devens said. "It would give the industry the power to terminate discussion on virtually any subject by claiming it was a financial matter, and that's not something we can live with."

For additional information, or to arrange interviews, contact Stan Jones at jones@pwsrccac.org or one of the following numbers: 907-273-6230 (w); 907-350-7711 (m) or 907-677-7237 (h).

The Prince William Sound Regional Citizens' Advisory Council is an independent non-profit corporation whose mission is to promote environmentally safe operation of the Valdez Marine Terminal and the oil tankers that use it. The council's work is guided by the Oil Pollution Act of 1990 and its contract with Alyeska Pipeline Service Company. The council's 18 member organizations are communities in the region affected by the 1989 Exxon Valdez oil spill, as well as aquaculture, commercial fishing, environmental, Native, recreation, and tourism groups.