BP Exec: Alaska Should Change Oil Tax Structure

BECKY BOHRER,Associated Press

JUNEAU, Alaska (AP) — The president of BP Exploration Alaska on Wednesday called the state's current oil tax structure "a going out of business policy," saying that without changes, investment by his company will stay flat, at best, in the short term and be scaled back in the long run.

John Minge is in Juneau, making a pitch for more sweeping changes to oil taxes than the Senate has proposed. He spoke with The Associated Press Wednesday.

Under the current tax structure, known as Alaska's Clear and Equitable Share, or ACES, there is a 25 percent base tax rate and a progressive surcharge triggered when a company's production tax value hits $30 a barrel. The idea, when the law passed in 2007, was that the state would help companies on the front end and share profits with them when oil flowed and prices were high.

But the industry says the surcharge eats too deeply into profits when oil prices are high and discourages new projects and drilling. Industry has spoken in favor of Gov. Sean Parnell's plan, which goes farther than the Senate plan in cutting taxes but is still merely seen by Minge and other industry officials as a good first step.

The Senate Finance Committee plans to spend at least two weeks on the oil tax issue. On Wednesday, Revenue Commissioner Bryan Butcher said Parnell's plan, a non-starter in the Senate, isn't the only way to meaningful change that will cause companies to invest more. But his suggested improvements to the Senate bill, SB192, were all elements of Parnell's proposal.

Critics have called Parnell's plan a corporate giveaway, with no firm guarantees the companies will invest any more in Alaska if their taxes are slashed. Parnell has countered by calling the Senate plan a giveaway, saying it cuts taxes but not enough to change investment behavior.

Minge said he's not wedded to Parnell's plan but wants to see a bill of the same overall magnitude.

BP and ConocoPhillips, two of the North Slope's main players, have talked about $5 billion in new investment — gross, among companies — if tax changes on the order of what Parnell is proposing are enacted. The other major player, Exxon Mobil Corp. also must agree under terms of the Prudhoe Bay operating agreement but has so far been publicly silent on the figure.

Minge said there's never been a problem getting all the companies to agree on economic projects. He said $5 billion would be just the start.

That level of new investment won't happen under ACES or the Senate plan, he said.

"We will lobby against a tweak to ACES because we don't believe that's the right thing for Alaska," he said. "We believe that's a giveaway ultimately. It's up to our elected officials to make a choice."

Some lawmakers see progressivity as being out of whack; others see ACES as working as it was intended to work.

Minge said the aim of ACES seems to be to "rip out as much money" as possible from the industry. An overhaul of ACES now would be the best thing for the state, he said.

"The state of Alaska and the producers are in the same business: We're in the oil business," he said. "We make billion-dollar investments early, and we take our returns over many years. So in the short term, the state does pretty well under ACES, but it's a going out of business policy."

If changes aren't made, in the long term, "we would have to start to adjust, and take the necessary steps, which would include starting to shutdown infrastructure, not working on certain projects. So we would definitely react," he said. "But in the short term, at best, I think we'd stay flat" with investment.

He did not define short term or long term.

"What we need is a tax policy that creates a sustainable, 50-year future," he said.

Minge wants to see progressivity bracketed, so that different portions of the production tax value would be taxed at increasing incremental levels. The Senate Resources Committee, in crafting the current version of SB192 earlier this session, rejected efforts to bracket.

Minge also thinks the base tax rate is too high. That issue isn't addressed either by Parnell's plan or the SB192.

There has been talk during Senate presentations about tax breaks for the more difficult or expensive to-get-at oil, like heavy or viscous oil. Minge said that's picking "winners and losers" and doesn't help companies now.

"We need tax reform on the base business to allow us to be more economic," he said. "We know how to pick the winners and losers. We know how to pick the right investment at the right time. That's what we do."

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