

## ISER RESEARCH SUMMARY

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# Distribution of Alaska Petroleum Wealth

A recent report by the University's Institute of Social and Economic Research has found that despite criticism to the contrary, the state's percentage share of Alaska petroleum wealth is not so different from shares received by state and local governments in other oil-producing states, notably Texas. In fact, the report found that the distribution of oil and gas taxes, lease payments to land owners, and oil company profits is roughly similar in the two states.

The report, written for the Office of the Governor, was based on an analysis of Alaska petroleum production and revenues for the past 20 years, as well as a projection of future production and revenues. It examines not only distribution of oil and gas wealth, but also how market forces and government policies influence future Alaska oil production and revenues.

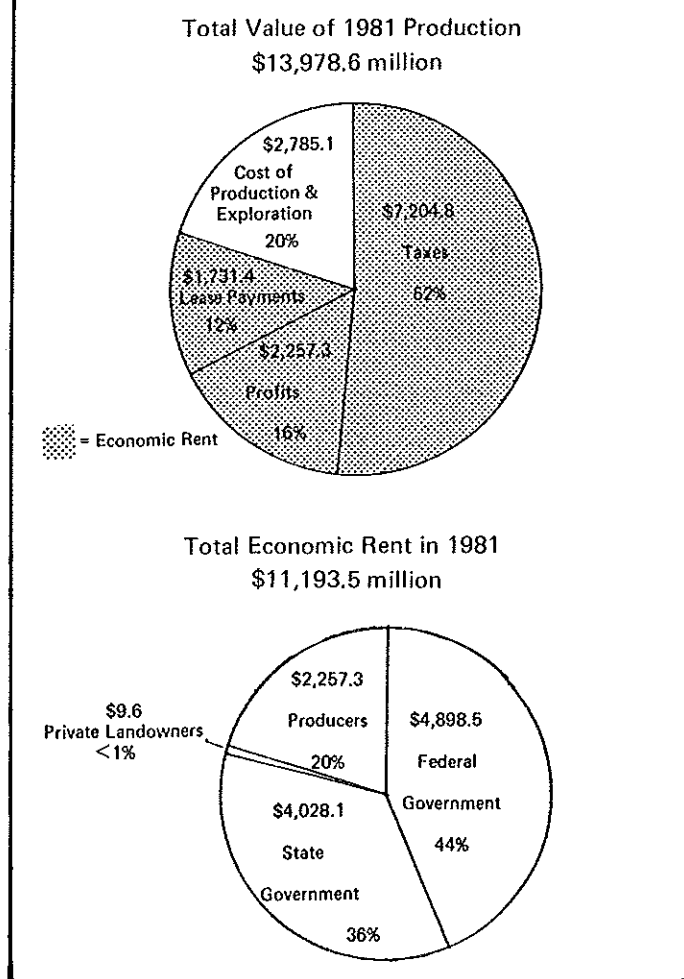
### Distribution of Oil and Gas Revenues

The wellhead value of oil and gas produced in Alaska in 1981 totaled nearly \$14 billion. Of that total, 20 percent covered the oil companies' costs of finding and producing the oil (see Figure 1). The remaining 80 percent, or \$11 billion, comprised what economists refer to as "economic rent."<sup>1</sup> Figure 1 shows how the economic rent was divided among taxes, lease payments to landowners, and profits to oil companies. But just how much of the economic rent the various claimants should get has been a controversial issue over the past 10 years, during which large increases in oil prices have greatly increased the difference between the value of the oil and the producers' costs.<sup>2</sup>

<sup>1</sup>Economic rent is the difference between the value of a commodity such as oil and the cost of producing the commodity. The cost of production includes the cost of labor, capital goods, and materials, as well as a competitive return on investment—the percentage of profit needed for investors to put their money into a project. The cost of production also includes taxes that all industries pay, such as property taxes, general sales taxes, and payroll taxes. However, taxes specific to the oil industry are not included in the cost of production but are calculated as part of the economic rent.

<sup>2</sup>Researchers chose 1981 for this illustration because oil prices peaked that year.

Figure 1. Distribution of Total Value and Economic Rent for Alaska Oil and Gas Production in 1981



The shaded area of the first graph in Figure 1 shows economic rent as a proportion of total petroleum revenues; the second graph shows how that rent was divided among the federal and state governments, private landowners, and oil companies. The graphs tell us that:

- Federal and state taxes took more than 60 percent

of the total value of oil and gas produced in Alaska in 1981. The producers' costs equalled 20 percent of total revenues; another 12 percent went for lease payments, and the oil companies kept the remaining 16 percent in profit.

- The federal government took 35 percent of the total 1981 revenues, or 44 percent of the economic rent, mainly in corporate income taxes, the Windfall Profits Tax, and payments on Outer Continental Shelf (OCS) leases.
- The state government collected about 29 percent of total revenues, or 36 percent of the economic rent, from petroleum production in Alaska that year. The state's income included both taxes and lease payments; the state owns the Prudhoe Bay oil field where most of Alaska oil is currently produced.
- Native corporations—the only private owners of significant oil and gas lands in Alaska—collected less than 1 percent of 1981 lease payments in Alaska; this contrasts with the situation in other states, where much of the oil-producing land is privately owned.

In addition to these specific distribution figures for 1981, the researchers generally concluded that:

- The most important factors determining the profitability of oil production and the distribution of petroleum revenues are not state or even federal policies but rather world energy prices, quantities of oil discovered, ownership of the land where oil is found, and the costs of producing the oil and transporting it to market.
- Federal policies, such as past price controls and the current Windfall Profits Tax, have been much more

influential than state policies in determining how much of the economic rent—the value in excess of producers' costs—remains in the oil companies' hands and how much the government collects.

- The percentages of economic rent devoted to taxes, lease payments, and producer profits are roughly equal in Alaska and Texas, the only state that currently produces more petroleum than Alaska. The chief difference is that most Texas oil production occurs on private lands, whereas most Alaska production has occurred and is likely to occur on public lands.

#### Effects of Market Factors and Government Policies

In addition, the study looks at how sensitive future Alaska oil production (and therefore future Alaska revenues) is to market factors and government policies.<sup>3</sup> The study also analyzes how various federal policies affect Alaska's petroleum revenues.<sup>4</sup>

<sup>3</sup>An upcoming issue of *Alaska Review of Social and Economic Conditions* will examine the sensitivity of Alaska oil production and revenues to market factors and government policies.

<sup>4</sup>One of these policy issues—OCS revenue sharing—will be covered in more detail in an upcoming *Research Summary*.

*This Research Summary is based on Alaska Petroleum Revenues: the Influence of Federal Policy, 218 pp., prepared for the Office of the Governor, State of Alaska, by Matthew Berman and other staffmembers of the Institute of Social and Economic Research (ISER). Copies of the report are available for reproduction costs of 10 cents per page from ISER, 707 A St., Suite 206, Anchorage, Alaska 99501, telephone 278-4621.*

**RESEARCH SUMMARY** (No. 25)  
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