

The Alaska Oil Tax Cut Controversy: A Case Study

In This Era of Information Overload, Does Our Political System Enable Tall Tales to Triumph?

Draft Talking Points with Occasional Footnotes

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** Subsequent to the original presentation of this report clarifying edits were made at pages 3 through 6.*

Introduction

Geographically isolated, huge, wild, with a small population base and highly oil dependent, Alaska offers case studies that may help us unravel and address the economic drivers in the chronic controversies that plague U.S. resource development. Because looking at the future is a necessarily speculative endeavor, policy outcomes are inherently vulnerable to easy generalizations that may be misleading. Note: We are often told that a half-truth is the most dangerous lie; recall also that people who misrepresent may actually believe the misinformation they present. For these reasons, I believe that the devil is in the details. Careful consideration of frequently flaunted “facts” is necessary to determine whether the supporting body of information is (1) aimed at accuracy, (2) tested in reality, (3) reflective of circumstances and therefore (4) provides an appropriate basis for generalized conclusions.

This analysis focuses on the current Alaska controversy over SB 21, the major oil tax cut enacted by the state Legislature on the final day of the legislative session in April 2013. SB 21 was immediately challenged by a call for a citizens’ referendum that will decide, in August of this year, whether to repeal that controversial legislation, in which the Legislature demanded nothing in return for the following gifts to the North Slope producers: (1) retaining the cost-based production tax regime while (2) destroying (instead of correcting) the progressivity component of that tax; and (3) further tilting the North Slope playing field toward the major producers by linking tax credits to production instead of exploration. (Additional information and facts that support these propositions can be found in various reports at www.finebergresearch.com.)

Background

The nation’s largest oil field was discovered in 1967 at Prudhoe Bay, where the Arctic coastal plain meets the Arctic Ocean at the northern edge of the continent. With the resolution of environmental disputes, completion of North Slope construction and the 800-mile Trans-Alaska Pipeline, oil production began in 1977. For several decades Prudhoe Bay was the nation’s largest oil field and anchor of the nation’s largest producing area. From inception, three major transnational oil companies have been dominant, today controlling more than 90 percent of Prudhoe Bay and oil production from the satellite fields of the Alaska North Slope (ANS).¹

For the last quarter century ANS output as been dropping steadily from its 1988 peak of 2.04 million barrels per day. But during the past 15 years oil prices have skyrocketed and high oil

¹ John M. Blair, *The Control of Oil* (Pantheon Books, 1976), an uncelebrated classic of oil economics, explains the ways in which the power to parse out oil enables the controllers to use the economics of supply and demand to maximize oil profitability.

prices still yield significant North Slope revenue. Despite the fact that knowledgeable petroleum engineers believe the Prudhoe decline rate will level off, enabling production to continue for many years to come,² fear of continued decline and an early shutdown hangs heavily over the current Alaska political scene. This decline is at the heart of the state's current oil tax controversy.

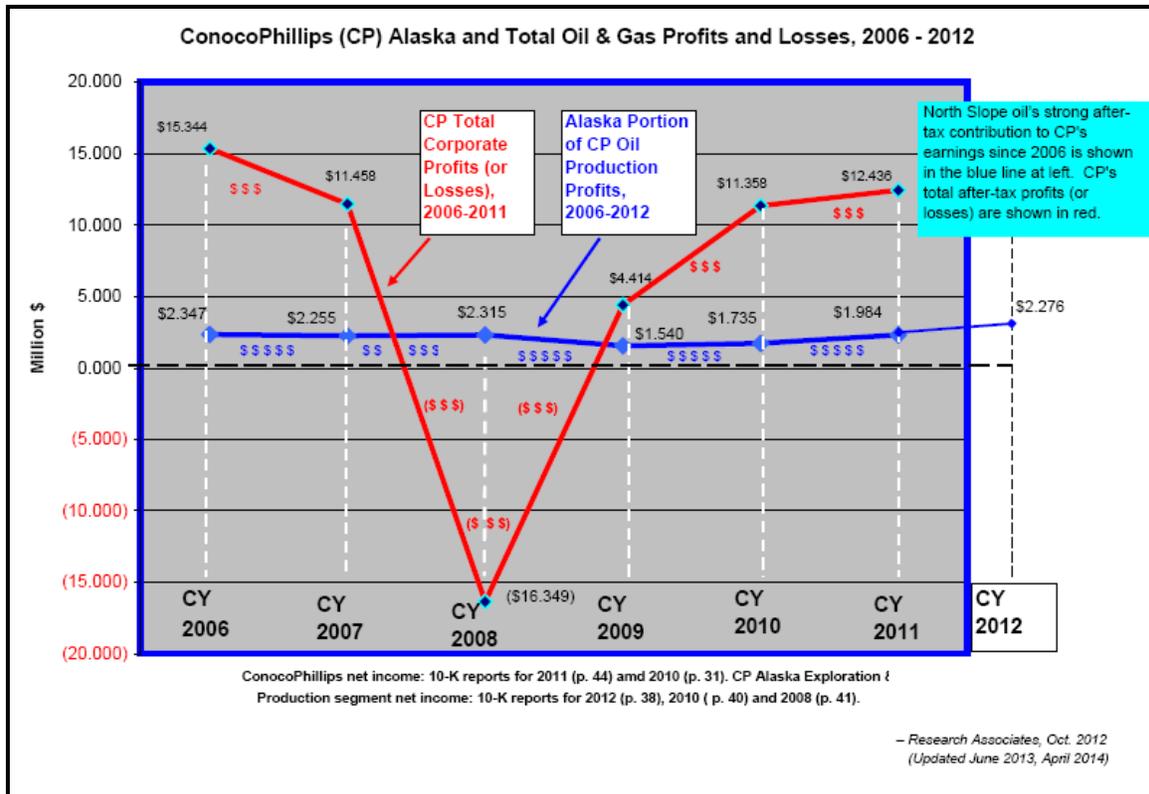
Industry supporters claim that Alaska production is too heavily taxed under the cost-based and progressive state petroleum tax system enacted in 2006 and revised in 2007.³ However, as shown in the following chart, data that ConocoPhillips (CP), the North Slope's largest producer, filed with the federal Securities and Exchange Commission (SEC) indicates that since 2006 ConocoPhillips Alaska profits ranged from \$1.5 billion to \$2.3 billion annually. During this period Alaska North Slope profits have soared over the company's erratic global performance earnings, which plummeted to a staggering rest-of-world net loss of more than \$16 billion in 2008 (as shown in the plunging red line in the chart on the following page). As shown in the following chart, when the company's global loss in 2008 and reduced profits in 2007 and 2009 are added together, over this three-year period ConocoPhillips barely broke even. But without its steady Alaska profits, during this period ConocoPhillips would have lost approximately \$6 billion.⁴ In other words, during this 3-year period CP's profits from Alaska kept the company afloat financially. In sum, the company's sizeable and relatively steady annual profits from its Alaska operations stand in marked contrast to the erratic profit and loss record that company has realized on its rest-of-world holdings. It should also be noted that during this period, CP's Alaska profits under the progressive tax regime that proponents of SB 21 would abandon contributed to the company's strong showing on the annual *Fortune 500* report on corporate performance.⁵

² In a 2011 court case on the valuation of the Trans-Alaska Pipeline System (TAPS), veteran petroleum engineer Dudley Platt testified for municipalities that TAPS should be valued on the basis of estimated North Slope reserves of more than 7.4 billion barrels. Arguing for a much lower tax rate, TAPS owners presented experts who estimated North Slope reserves at less than 1.3 billion barrels. Finding Platt's production forecast "persuasive" and more credible than the testimony of his critics, Alaska Superior Court Judge Sharon L. Gleason estimated reserves at 7.1 to 7.8 billion barrels – an amount sufficient to keep TAPS operating past 2065. (*BP Pipelines [Alaska], Inc., et al. v. State, et al.*, 3AN-06-08446 CI [Decision Following Trial de Novo: 2007, 2008, and 2009 Assessed Valuations; Alaska Superior Court, December 30, 2011], ¶ 1, 4, 461, 476, 480, 505, 506, 599).

³ See, for example, testimony of Scott Jepsen, ConocoPhillips Vice-President (External Affairs) and Robert Heinrich, Vice-President (Finance) in favor of tax bill SB21 before the state Senate TAPS Throughput Committee, Feb. 5, 2013 (slide 9), Senate Resources Committee, Feb. 8, 2013 (slide 8, lower panel), House Resource Committee, Mar. 26, 2013 (slide 2, lower panel) and House Finance Committee, April 8, 2013 (slide 6).

⁴ These results are based on ConocoPhillips net income from its Alaska exploration and production segment between 2006 and 2012, as reported to the U.S. Securities and Exchange Commission. (See ConocoPhillips reports on Form 10-K for 2012 [p. 38], 2011 [p. 47], 2010 [p. 40] and 2008 [p. 41].)

⁵ Except for the year of its global 2008 loss, between 2003 and 2011 CP was almost always among the 20 most profitable U.S. corporations, ranking, on average, between 14th and 15th on the *Fortune 500*. In contrast, prior to its North Slope acquisition, CP predecessor Phillips Petroleum was far down the list, averaging approximately 142nd in profits between 1992 and 1999.



Looking forward, the picture is not as clear. Oil production from a declining field is more difficult and becomes more expensive to produce as production declines. In focusing on these potential problems, it should be noted (and the campaigners to cut taxes typically fail to mention) that under the cost-based production tax system instituted in 2006 production taxes are not levied until all production and transportation costs are recouped. Additionally, the tax cut proponents did not provide much in the way of credible cost projections that would identify the point at which the factors that contributed to CP profitability for the past decade in the face of declining production would suddenly stop working.

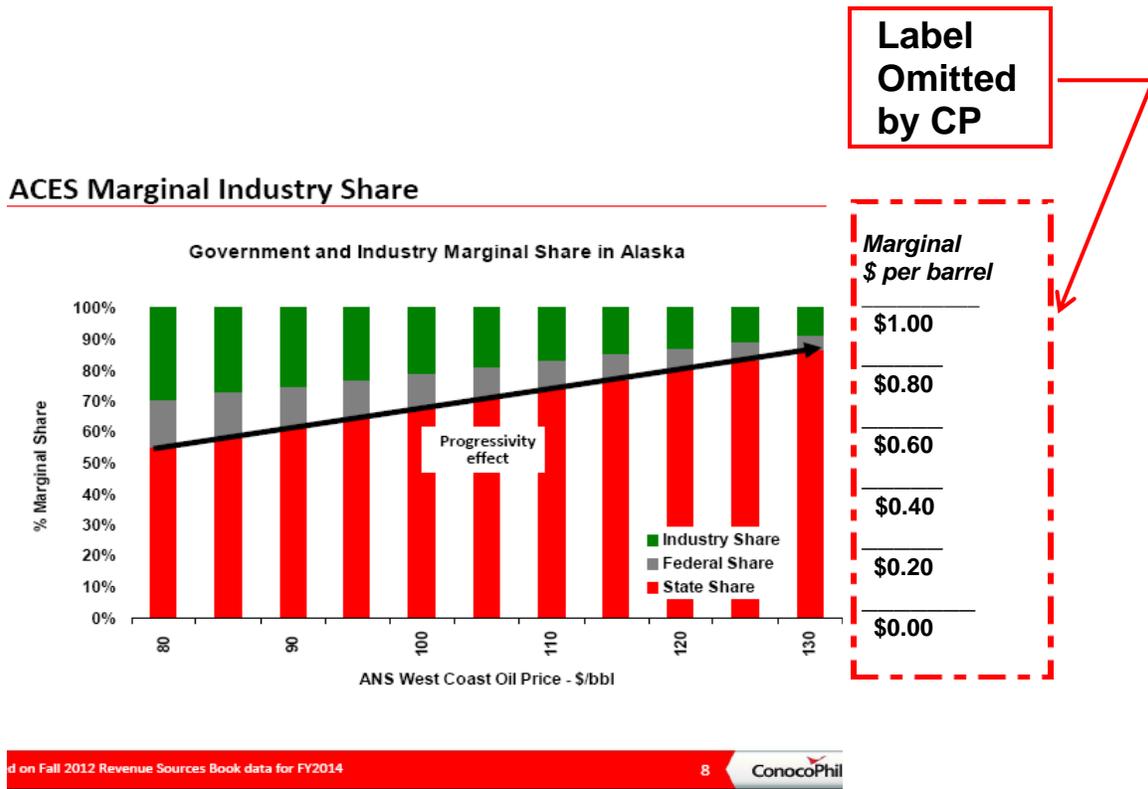
Supported by an industry-oriented state administration, the new Senate majority installed by the 2012 election claims to have conducted "exhaustive" deliberations before passing SB 21. But the legislators failed to focus on the critical factors of cost projection, defects in the administrative audit system and testimony and misleading charts.

Distortion by Omission

For example, here is a bar chart ConocoPhillips offered six times in slide projections with testimony during the 2013 legislative session. CP accurately described the chart in testimony, but the chart itself was presented without the clarifying label I have added immediately to the right of

the vertical bars.⁶ Although the term “marginal” generally refers to a small amount, outside the main body of data or near near the break-even point, in the oil patch the term “marginal” may also refer to large revenue increments gained from increased oil prices.⁷ Due to the failure to clear up this ambiguity, in this chart the labels “Progressivity Effect,” “Industry Share,” “Federal Share” and “State Share” combine with the prices shown in the horizontal axis to create the misleading impression that the chart’s diminishing green swath represents industry profits that decline as oil prices increase from \$80 to \$130 per barrel. But in fact, the opposite is the case.

Although CP did testify that each bar represents the split of an additional \$1 per barrel increase at the price shown in each bar, this fact is not evident in the poorly labeled chart. Consequently, this chart, which frequently appears in the legislative records, dramatically and erroneously reverses and exaggerates the net revenue effects of Alaska’s former progressive tax regime on oil prices between \$80 and \$130 per barrel.



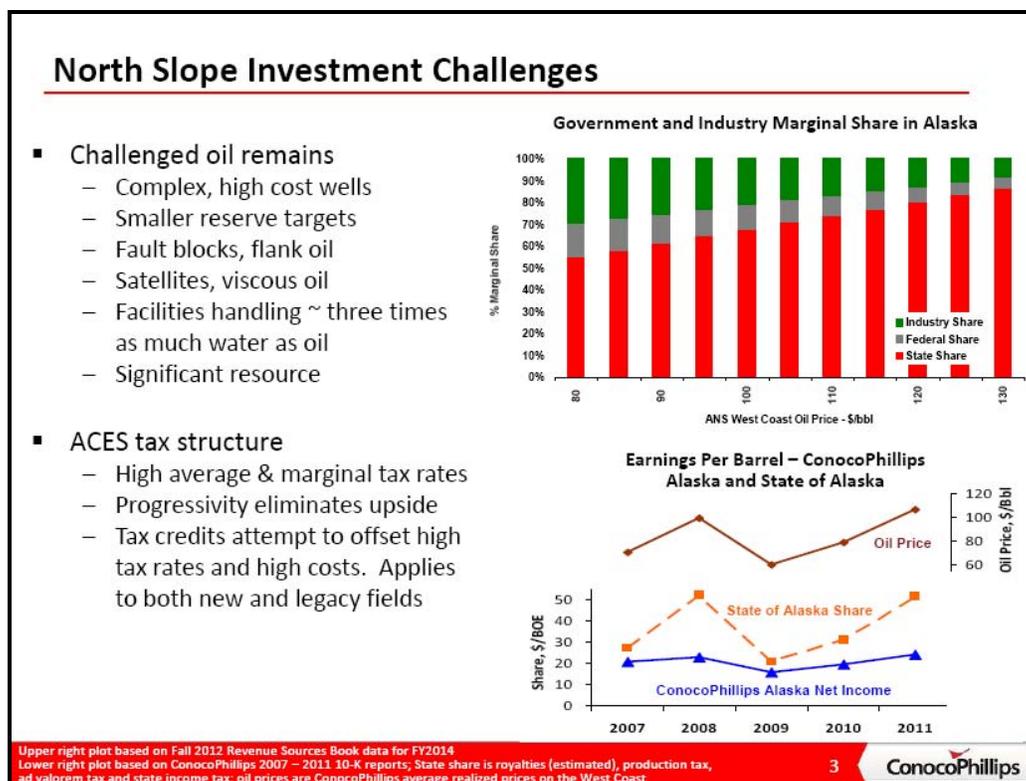
⁶ During the 2013 session this chart (without the clarifying label shown above) was presented to: Senate TAPS Throughput Committee (Feb. 5, 2013), Resources Committee (Feb. 8 and Feb. 20) and Finance Committee (Mar. 5); House Resources Committee (Mar. 26) and Finance Committee (Apr. 8).

⁷ For example, a three-fold increase in the price of oil – from \$20 to \$60 per barrel – can result in windfall or marginal increase in a quadrupling of net revenue, from \$11 to \$45 per barrel. (See: Daniel Johnston, “Changing fiscal landscape,” *Journal of World Energy Law & Business*, 2008 [Vol. 1, No. 1], p. 42 [Table 1].)

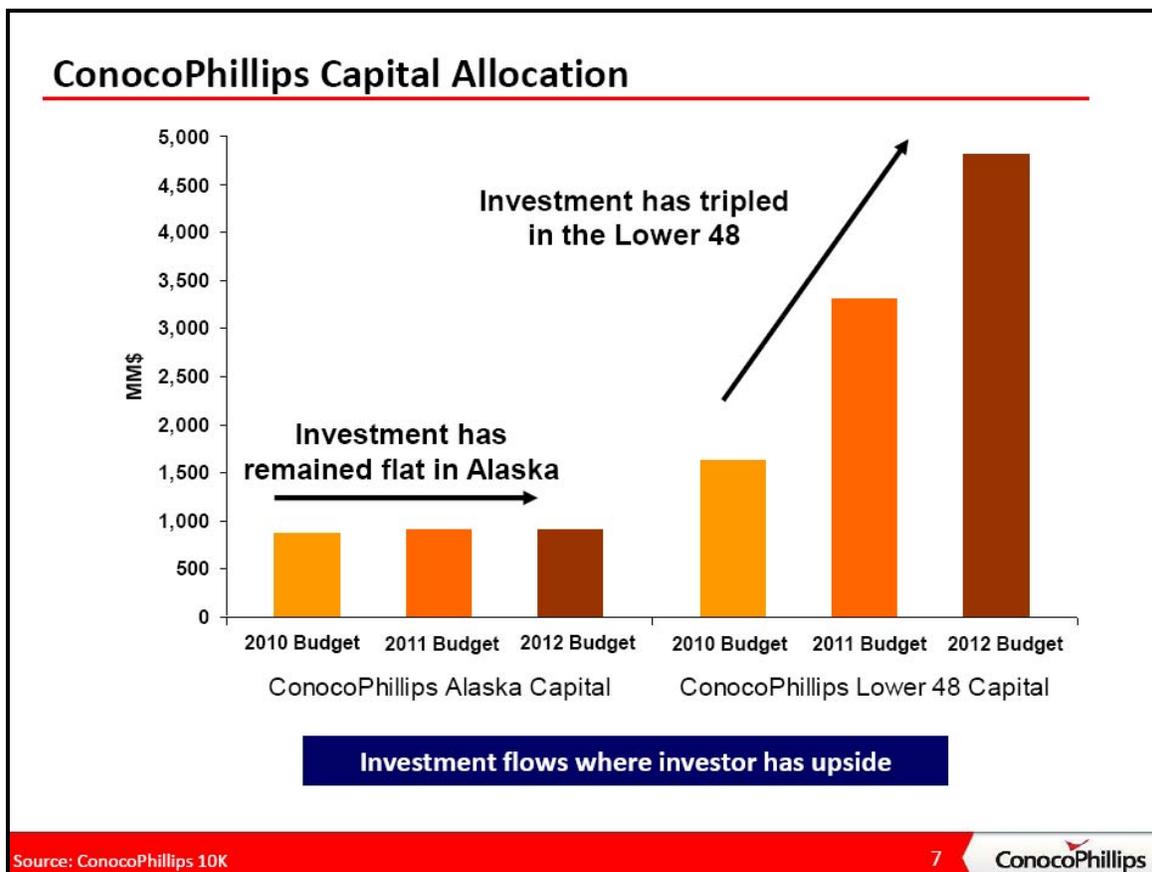
In sum, the diminishing green swath creates a false impression, suggesting to the uninitiated observer that industry share of revenue declines as oil prices rise from \$80 to \$130 per barrel. In fact, however, the chart shows that at every price through \$130 per barrel the industry takes in additional windfall profits from oil price increases, with all costs paid, albeit at reduced rates.

A CP companion chart traveling with the bar chart and its misleading green swath during the 2013 legislative session also failed to show the costs of production and transportation, which are subtracted from the market price of oil to determine the tax base. The companion chart further confused the picture by dealing in the horizontal axis with different years, instead of different prices. Moreover, by presenting figures in per-barrel units, both ConocoPhillips charts distract attention from the annual revenue totals that show CP’s extraordinary North Slope profitability.

In three of six presentations CP showed the bar chart with the companion chart on the same slide; here is a copy of the slide CP’s presentation to the Senate Finance Committee on March 5, 2013:



The following chart from CP’s 2013 presentations stated that investment in Alaska remains flat, while tripling in the Lower 48. This chart begs the question: When three companies control more than 90% of production in a revenue-dependent state, could they be withholding investment to induce support for the tax cut?



Pipeline Tariff Overcharges: The Tip of an Iceberg

Excessive pipeline transportation charges (tariffs) can reduce the value of a commodity produced in a remote area like Alaska. At the same time, because the transportation costs are subtracted from the market price to establish the basis for the payment to government., when producers own their own transportation unit overcharges can reduce the payments to government . The overcharges also handicap non-owner competitors, who must pay the overcharges out of pocket while the owners transfer their own transportation payments from one pocket to another.

The three major oil companies who control ANS production augment their profits through ownership of the Trans-Alaska Pipeline System (TAPS), which carries ANS crude oil 800 miles across Alaska to the tanker terminal at Valdez, where the oil is loaded onto tankers for shipment to market. Before production began in 1977 the TAPS owners filed tariffs that remaining shipping parties and the state challenged as excessive. But in 1985 the state abandoned its court quest for refund on TAPS overcharges, agreeing instead to a complicated tariff methodology that was supposed to reduce tariffs on future shipments. Seventeen years later, in 2002, the Regulatory Commission of Alaska (RCA) determined that the 1985 settlement enabled the pipeline owners to

overcharge tariffs between 1977 and 1996 by \$9.9 billion more than required to meet costs plus allowable profit. RCA estimated the cumulative overcharge in real 1997 dollars was \$13.5 billion.⁸ While the major TAPS owners simply transferred most of the pipeline overcharge back to their producing unit, the non-owner shippers paid the excess tariff out-of-pocket, placing them at a handicap to the pipeline owners;⁹ the state lost money, too. But it was too late to collect refunds. Here is how I estimate the results of this overcharge:

Trans-Alaska Pipeline System Overcharges, 1977-1996 *RCA 2002 Decision and Finding)	
1. TAPS Overcharges, 1977-1996	\$13,500,000,000.00 (1)
2. Barrels Shipped, 1977-1996 (estimated)	11,479,980,000 (2)
3. Carrier Overcharge per barrel, 1997- 1996 (1997 \$)	\$1.18 (3)
4. CPI-U Indexed Inflation Factor (1997 – 2012)	1.386 (4)
5. TAPS Overcharge per barrel, 1977 – 1996 (2012 \$)	\$1.63 (5)

6. Estimated Reduced Payments to State, 1977 - 1996 (2012 \$)	Approx. \$5.6 billion (6)*
7. Est. Non-TAPS Owner Overpayments (1977 - 1996 (2012 \$)	Approx. \$1.2 billion (7)*

<u>Sources</u>	
(1) Regulatory Commission of Alaska, <i>Order Rejecting 1997, 1998, 1999 and 2000 Filed TAPS Rates: Setting Just and Reasonable Rates; Required Refunds and Filings; And Outlining Phase II Issues</i> (Docket P-97-4, Order No. 151), Nov. 27, 2002, p. 131.	
(2) Estimated from Alaska Department of Revenue, <i>Fall 2002 Revenue Sources Book</i> , Appendix E (p. 130).	
(3) = (Line 1 / Line 2)	
(4) Calculated from CPI-U (U.S. Dept. of Labor Bureau of Labor Statistics, accessed Oct. 20, 2011; updated with U.S. Energy Information Administration data)	
(5) = (Line 3 * Line 4)	
(6) = (Line 2 * Line 5) * 0.3	
(7) = (Line 2 * Line 5) * 0.1 * 0.65	

⁸ *Order Rejecting 1997, 1998, 1999 and 2000 Filed TAPS Rates; Setting Just and Reasonable Rates; Requiring Refunds and Filings; and Outlining Phase II Issues*, Docket No. P-97-4, Order No. 151 and P-97-7, Order No. 110 (Regulatory Commission of Alaska, Nov. 27, 2002), at pp. 1-8 (brief legal history) and pp. 131-132 (“...TSM [TAPS Settlement Methodology] has, on a cumulative basis, provided the Carriers with an opportunity to recover \$9.9 billion more than their costs as determined by the DOC [Depreciated Original Cost] revenue requirements In 1997 dollars, the net present value of the cumulative stream of revenue requirement differences is \$13.5 billion....”).

⁹ Note also: the guaranteed, regulated profit that TAPS delivers to its owners with every barrel of crude oil the pipeline delivers is a hedge against low oil prices that independent developers on the North Slope, as shippers who are not pipeline owners, do not share.

Here is a copy of the RCA’s 2002 reference to the past overcharge in its 2002 tariff decision. (The tariff decision was subsequently challenged by the industry in court but was upheld by the state Supreme Court in 2008.)

RCA, Order No. 151 (Docket P-97-4), Nov. 27, 2002

1	<u>STATE OF ALASKA</u>		
2	<u>THE REGULATORY COMMISSION OF ALASKA</u>		
3	Before Commissioners:	G. Nanette Thompson, Chair	
4		Bernie Smith	
5		Patricia M. DeMarco	
		Will Abbott	
		James S. Strandberg	
6	In the Matter of the Correct Calculation and Use of Acceptable Input Data To Calculate the 1997, 1998, 1999, 2000, 2001, and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System Filed by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; EXXONMOBIL PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; UNOCAL PIPELINE COMPANY; PHILLIPS TRANSPORTATION ALASKA, INC.; and WILLIAMS ALASKA PIPELINE COMPANY, L.L.C., and the Protest by TESORO ALASKA PETROLEUM COMPANY of the 1997 and 1999 Tariff Rates	P-97-4	
7		ORDER NO. 151	
8			
9			
10			
11			
12			
13			
14			
15			
16		In the Matter of the Petition of TESORO ALASKA PETROLEUM COMPANY for an Investigation into the Amounts Collected by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; and UNOCAL PIPELINE COMPANY for Dismantling, Removal, and Restoration of the Trans Alaska Pipeline System	P-97-7
17			ORDER NO. 110
18			
19			
20			
21			
22			
23	<u>ORDER REJECTING 1997, 1998, 1999 AND 2000 FILED TAPS RATES; SETTING JUST AND REASONABLE RATES; REQUIRING REFUNDS AND FILINGS; AND OUTLINING PHASE II ISSUES</u>		
24			
25			
26	BY THE COMMISSION:		
	P-97-4(151)/P-97-7(110) – (11/27/02)		

Regulatory Commission of Alaska
 701 West Eighth Avenue, Suite 300
 Anchorage, Alaska 99501
 (907) 276-6222; TTY (907) 276-4533

RCA, Order No. 151 (Docket P-97-4), Nov. 27, 2002

1 B. Comparing From the Beginning of Pipeline Operation, the Annual Past
2 Revenue Requirements of a DOC Methodology With the Annual Past Revenue
3 Requirements of TSM. Demonstrates That the Year-end 1996 Rate Base of \$669
4 Million Is Reasonable

5 We now compare the past annual DOC revenue requirements shown at
6 Exhibit 33 with the past annual TSM revenue requirements. Exhibit 7, Schedule 2
7 reveals that TSM has, on a cumulative basis,⁵⁴⁷ provided the Carriers with an
8 opportunity to recover \$9.9 billion more than their costs as determined by the DOC
9 revenue requirements.⁵⁴⁸ In 1997 dollars, the net present value⁵⁴⁹ of the cumulative
10 stream of revenue requirement differences is \$13.5 billion, far in excess of the \$669
11 million year-end 1996 DOC rate base.

12 Because the revenue requirements determined under TSM have been
13 higher than costs as determined under a DOC methodology applied consistently from
14 the beginning of pipeline operations, we find that the Carriers have had ample
15 opportunity to recover costs and no taking of Carrier property occurs if we adopt a \$669
16 million year-end 1996 DOC rate base.

17 ⁵⁴⁷Our finding regarding the appropriateness of TSM depreciation and the year-
18 end 1996 rate base is properly tested with reference to the Carriers' *cumulative*
19 historical opportunity to recover their full costs of service. In *Re Amerada Hess Pipeline*
20 *Corporation*, Order P-97-4(79), April 10, 2000, we directed the Carriers to show that
21 1997-2000 rates reflect costs. We found that evidence that rates are just and
22 reasonable over the life of the line is not sufficient to prove that the rates for specific
23 years are just and reasonable. *Id.*, at 11. The Carriers' "life of the line" argument
24 requires, among other things, a projection of costs of service into the future. Moreover,
25 it fails to address whether 1997-2000 costs are reflected in 1997-2000 filed rates. We
26 evaluate *historical* costs; we do so to determine whether 1997-2000 rates reflect the
costs of providing service for the years in question.

⁵⁴⁸Exhibit 7, Schedule 2, Line 1.

⁵⁴⁹Exhibit 7, Schedule 2, Line 2. The net present value calculation uses interest
rates equal to the Commission's overall weighted rate of return in each year. See
Exhibit 7, Schedule 1, Line 6. We note that the present value comparative revenue
requirement analysis indexes 1997 dollars, because those are the dollars with which the
remaining rate base is measured.

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Over this 20-year period the pipeline overcharge would have reduced tax payments to the state by a total of \$3.375 billion. By overcharging themselves, over this 20-year period the pipeline owners would have reduced their state tax payments by nearly half a

million dollars per day.¹⁰ But by the time that current TAPS tariff case was tried and settled, the RCA could not require refunds on the 1977-1996 portion of its findings, which were only calculated for the purpose of determining the correct rate base for calculating just and reasonable tariffs for 1997 – 2002 and future TAPS shipments.

This information would not have surprised noted economist Joseph Stiglitz, who worked on Alaska's royalty litigation in the late 1980s. Stiglitz later described his first-hand experience dealing with the petroleum industry in Alaska petroleum litigation in the following words:

Whatever the contract that has been signed, corporations are tempted to cheat – to pay less than they are supposed to – because the amount of money that can sometimes be made by doing so is so large. . . . This oil-rich state had a mineral lease requiring the oil companies to pay at 12.5 percent of the gross receipts, less the cost of transporting the oil out from the far-flung site at Prudhoe Bay on the Arctic Circle. By overestimating their costs by just a few pennies per gallon (and multiplying those pennies by hundreds of millions of gallons) the oil companies would increase their profits enormously. They could not resist the temptation.

They also found other ways to cheat, such as selling their oil to their own subsidiaries, recording a lower than fair market value . . . or using other subsidiaries to ship their oil out and then reporting fictionally high shipping cost. Each piece of the cheating was hard to detect, and government prosecutors had to analyze thousands of transactions- – at a cost of tens of millions of dollars. In the end, there was no doubt that cheating had occurred – and on a massive scale.¹¹

The latest reckoning on oil and gas litigation is that since 1977 the state has recovered at least \$8.5 billion from producers in settlements for tax and royalty underpayments.¹² (This sum, collected by the state in refunds and interest by does not include all oil industry overcharges and underpayments.)

Litigation over TAPS overcharges and pipeline valuation continues today. The cases take years to resolve but generally find that the industry over-estimates its transportation costs (handicapping independent shippers and reducing payments to the state) and underestimates its pipeline valuation (again reducing payments to the state).

¹⁰ $(\$13,500,000,000.00 * 0.25) = \$3,375,000,000.00$ (reduced state tax collections due to tariff overcharges); $(\$3,375,000,000.00 / 20) = \$168,750,000.00$ per year; $(\$168,750,000.00 / 365) = \$462,328.76$ per day (reduction in industry taxes paid daily over 20 year period).

¹¹ Joseph E. Stiglitz, "What Is the Role of the State?" Macartan Humphreys, Jeffrey D. Sachs and Joseph E. Stiglitz (eds.), *Escaping the Resource Curse* (Columbia Univ. Press, 2007), pp. 24-25 (footnotes omitted).

¹² State records, compiled and reported on by this writer in 2003, showed that the Alaska Dept. of Law reported \$6.8 billion in oil and gas settlement payments for underpayments on taxes and royalties through 2001. (See: See: Richard A. Fineberg, "Securing the Take: Petroleum Litigation in Alaska," in *Caspian Oil Windfalls: Who Will Benefit?* [New York: Open Society Institute, 2003], pp. 53-69 [Chapter 3]. Since that time, the Alaska Constitutional Budget Reserve Fund reports taking in another \$1.7 billion in oil and gas settlements, bringing the total revenue gained through petroleum litigation since Prudhoe Bay entered production to \$8.5 billion (Alaska Department of Revenue, *Fall 2012 Revenue Sources Book*, p. 96).

Two Snapshots from the Tax Cut Advertising Campaign

Since January 2014, the Alaska television channels have been inundated with advertising by industry and a pro-industry citizens' group (funded by the oil companies) urging citizens to "Vote No on SB 21" in the August primary.¹³ The advertisements are classic examples of manipulative efforts to influence the public. Two will be reviewed here:

A 31-second ad by the citizens' group "Vote No On 1," bears this title:

"Alaska oil production has been declining; the old tax system did nothing to stop it"

The ad introduces three putative facts with this statement:

"Alaskans will decide an issue this year that affects our economic future. Consider the facts:"

The first fact the citizens were urged to consider is of questionable relevance:

"One-third of all Alaska jobs are attributed to the oil industry."

The opening fact says nothing about whether the oil industry needs a tax break to continue operating. Rather, it suggests that the state must give the industry whatever it wants or else the industry will pull up stakes and leave. In other words, the industry seeks capitulation rather than deliberation.

The validity of the second fact citizens were urged to consider is questionable:

"Under our old oil tax system, Alaska oil production fell from 2nd in the nation to 4th.. behind California."

In considering this statement, it should be noted that Alaska's production decline stems primarily from the geological realities of oil reservoirs, whose production typically peaks in the early years and then declines as oil is pumped out.

The third statement is at best a half-truth and is arguably false:

"Alaska oil production has been declining; the old tax system did nothing to stop it"

While it is true that oil production has been declining, Alaska's switch to a cost-based, progressive tax in 2006 and ConocoPhillips' profits under that tax regime between 2006 and 2011 both indicate that the state has taken action to slow decline. (It should also be noted that although knowledgeable reservoir engineers expect the production decline to level out, this is a consequence of geologic reality, not state tax policies.)

¹³ Early in February it was reported that major oil companies had spent approximately \$1.3 million on advertising to defeat the referendum on SB 21, with another \$2.2 million earmarked for continued advertising.

In sum, this ad deals in generalities of questionable merit – not in substantive facts about the economics and geologic realities of production decline.

A second frequently seen television advertisement – this one by British Petroleum – was similarly short on relevant facts and long on sound bites. This 30-second ad, another classic in media manipulation, began with this inaccurate statement:

“Twenty years ago two million barrels a day flowed down the pipeline. Today it’s about five hundred thousand.”

In fact, 20 years ago 1.56 million barrels a day flowed down the pipeline; 20 years ago oil was already down 22% from the peak of 2.01 million barrels a day seven years earlier. “Our plan, pure and simple,” the ad continued, “is to get more oil in the line;” to this end, the speaker claimed that BP is spending one billion dollars for two new oil rigs and drilling about 200 more wells. The ad ended with the statement, “It just shows what a positive economic climate can do,” as the statement “Committed to Alaska” appeared on the screen next to the BP logo.

Although BP did not bother to check its basic facts (or didn’t want to remind the public that oil had been declining for even longer than two decades), the oil company chose the speaker with considerable care; he was identified as Frank Paskvan – the brother of former state Senator Joe Paskvan, who served as the Senate Resources Committee Chairman and developed facts that encouraged opposition to oil tax cuts until the industry managed to run him out of office in the 2012 election, replacing him with a tax cut supporter.

Conclusions

Here are two principal conclusions from this Alaska case study:

1. The consolidation of oil development in the hands of three major transnational oil companies is an important economic factor that is often overlooked by the press and the public.
2. The oil industry has mastered the art of media manipulation.

To deal with the devil in the details, two data-related recommendations follow:

3. To clarify the economic issues in this case study, it is necessary to determine (a) the accuracy of data presented by tax cut supporters and (b) the relevance of those data to the policy issues under consideration.
4. To evaluate whether economic and environmental policies are appropriate, it is necessary to establish (a) a comprehensive data base that can be used for comparative analysis of costs and earnings (e.g., between other industries and regions) and (b) contextual understanding of factors often omitted as externalities to economic analysis (e.g., identification of beneficiaries and long-term effects of development policy).

In addition to demonstrating the importance of these conclusions and the need for these recommendations, the Alaska case study raises this troubling question about the nation's political system:

5. In this era of information overload, does our political system enable tall tales to triumph?
