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Alaska Pipeline Report

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ALASKA PIPELINE REPORT

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and Government Research.
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When the Department of the Interior released its *Draft Environmental Impact Statement for the Trans-Alaska Pipeline* in January, 1971, opponents and proponents alike were waiting for what has become the first major testing ground for section 102(c) of the National Environmental Policy Act of 1969. In subsequent hearings, the draft version was so inadequate that Secretary of Interior Rogers Morton ordered a whole new study. In response to the need for specific information the Institute of Social, Economic and Government Research was asked by the Department of Interior to evaluate "the expected economic consequences, through the year 2000, of constructing and operating a forty-eight inch pipeline to carry crude oil from Prudhoe Bay to the port of Valdez."[1]

The qualifications of the authors and the quality of their work are very high indeed, but *Alaska Pipeline Report* is, nonetheless, very limited in scope. Those who are looking for help to evaluate whether or not a pipeline should be built and, if built, by what route would be well advised to look elsewhere. This report does not deal with the most important economic questions involved. In fact, at this time, there is very little usable information of that type available anywhere.[2] The practice of dividing up research assignments into very small units, such as this report, assures the Department of Interior control over the significance given to the various parts and the way they are integrated into a meaningful whole. The recent disclosure of the Interior's decision not to hold public hearings on the forthcoming environmental impact state-

1. A. Tussing, G. Rogers, and V. Fischer, Alaska Pipeline Report 1 (1971).

2. Some of the testimony submitted during the hearings on the draft version may be of help to anyone wishing to pursue this. *See* especially "Prepared Statement by Charles J. Cicchetti and John V. Krutilk on the Trans-Alaska Pipeline Environmental Impact Report" filed with the Department of the Interior March 5, 1971. The authors are with Resources of the Future. The statement is an attempt at a preliminary cost benefit analysis of the proposed route compared to a Canadian route including amenity considerations.

ment is only a continuation of this effort to control public information.

The authors allude to the larger context of their work in the introduction:

> . . . although some estimates and projections presented here may be usable in benefit-cost analysis, this report is not such an analysis; none of the series here—income, employment, state revenues—is to be regarded as a net benefit either to Alaska or to the United States.[3]

They also note:

> . . . The longterm impact of North Slope oil will come mainly from production revenues. It is not correct, therefore, to attribute all or most of the projected growth to the proposed pipeline as such; the bulk of the gains to the state would occur whatever route were chosen to transport the crude oil to markets.[4]

Within its limits, *Alaska Pipeline Report* is very well done. The report is divided into three main sections. The first deals with Alaska's demographic and economic characteristics, the second with the oil and gas industry in Alaska, and the third with the impact of the construction of the proposed pipeline and the production of North Slope oil on Alaska's economy.

Chapter II, "Alaska's Population and Economy," is a descriptive account of the workforce, sources of income, patterns of employment, etc. The whole chapter constitutes a good, but very short introduction to Alaska's economy. The well-known erratic employment problems of Alaska are covered briefly, but very clearly, including a section on the unemployment of natives.

Chapter III, "The Oil and Gas Industry in Alaska" is quite short; covering a history of the industry in Alaska, petroleum and mining employment, Alaskan reserves, etc.

Chapter IV, "Impact of the Pipeline and Prudhoe Bay Production upon the Alaska Economy," represents the most important section of the book. The authors are careful to explicitly detail their methodology and assumptions throughout including the expected effect of the Alaska Native Claims Settlement Act (P.L. 92-203).[5] The several projections and

3. Alaska Pipeline Report, *supra* note 1, at 7.

4. *Id.*

5. The author's assumption of a two percent royalty out of state revenues up to $500 million proved correct (section 9(b)). The assumption given in "Notes to Table IV-3" (c) page 18 of a twelve-year native exemption, however, was amended in committee to a total tax exemption on revenues originating from the Alaska Native Fund (section 21 (a)).

estimates given deal with primary and secondary effects of the pipeline on employment, income, and state revenues as well as a section on state and local government costs. The authors also disclaim suggestions that the pipeline haul road would lead either to extensive development of a forest industry in the interior or greatly influence mining activity. In both cases, it is claimed that market conditions and the availability of more accessible and proven resources will discourage development. This chapter also deals qualitatively with such secondary effects as general price changes and the response of capital markets to Alaskan oil development.

The best summation of the authors' findings is located in the introduction. They expect, as a result of the proposed development, that personal income originating in the state, employment and payrolls, and population will increase by twenty-five percent, twenty percent and seventeen percent, respectively, over 1970 levels.[6] Direct royalty income to the state will reach $300 million by 1981 and $360 million by 1990. In spite of this "the behavior and present structure of Alaska labor markets give little hope of substantial reductions in unemployment rates even during the peak levels of pipeline construction. To the contrary, the absolute number of unemployed will almost certainly grow."[7]

The authors are careful to mention that the effect of the pipeline on Alaska will be determined in large part by the way the state spends its revenues. Throughout, the working assumption is that the state will continue to spend its funds in roughly the same areas as it has in the recent past.[8]

Alaska Pipeline Report's audience will probably be small—economists for oil companies and state legislators making plans for slicing the pie. The report's economic exercises would be of only academic interest were it not for the important role they may play in what will be one of the most important resource decisions of this century.

6. The remarkably large percentages are due to the small size of Alaska's economy. Peak values and year of occurrence are as follows:

	Petroleum Related	Secondary Effects	Total
Employment	20,900/1972-73	22,800/1982	27,700/1972-73
Population	37,700/1972-73	43,300/1982	51,700/1981-82

Petroleum Related Payrolls	$341.3 million/1974
Alaska Personal Income	$499.9 million/2000

7. Alaska Pipeline Report, *supra* note 1, at 6.

8. For a discussion of Alaska's use of funds to date, *see* Wall Street Journal, Nov. 16, 1971 at 1.

The recognition of the limits and context of this report suggests that the most important question to be asked is how will the Department of the Interior use the information it has gathered. The answer will come when the final impact statement is released.

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