

Relative Attractiveness of Alaska for Petroleum Exploration and Development: Highlights from the 2012 Global Petroleum Survey

Presented by

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The Global Upstream Petroleum Survey



- The Fraser Institute, an independent think tank based in Vancouver, B.C., has been surveying upstream petroleum explorers' and developers' perspectives on the relative attractiveness of jurisdictions around the world since 2007.
- Year-to-year changes in the jurisdictional rankings and the detailed results from the survey provide valuable feedback for both policy makers and business.
- For policy makers, how a jurisdiction is rated with respect to the various factors impacting investment decisions provides an indication of issues that may require attention.

2012 Participation



- 623 questionnaires received from officers, managers and other experts with 529 companies (mostly E & P).
- According to International Energy Agency data, participating companies accounted for more than half of global exploration and development spending in 2011.
- 147 countries, states, provinces and offshore areas were ranked in 2012 (vs. 135 in 2011, 133 in 2010, 143 in 2009, 81 in 2008, and 54 in 2007).

Factors Impacting Investment Decisions Addressed by the Survey (1)



1. Fiscal terms (e.g. royalties and production taxes)
2. Other forms of taxation (e.g. income and sales taxes)
3. Uncertainty regarding new environmental regulations
4. Inconsistency in the interpretation and administration of existing regulations impacting the upstream
5. Cost of regulatory compliance
6. Uncertainty regarding protected areas
7. Socio-economic agreements
8. Trade barriers
9. Labor regulations and agreements

Factors Impacting Investment Decisions Addressed by the Survey (2)



10. Quality of infrastructure
11. Availability and quality of geological data
12. Labor availability
13. Disputed land claims
14. Political stability
15. Security of personnel and equipment
16. Regulatory duplication and inconsistencies
17. Legal system fairness and transparency
18. Corruption of government officials

Available Responses Regarding How a Factor Addressed by a Survey Question Affects the Decision to Invest in a Particular Jurisdiction.



1. Encourages investment
2. Not a deterrent to investment
3. A mild deterrent to investment
4. A strong deterrent to investment
5. Would not invest due to this factor

Evaluating the Results

- **Investment factor question scores for each jurisdiction**
 - derived by adding the percentages of total responses that indicate that the factor is either a mild or a strong deterrent to investment or that respondents simply would not invest (i.e. the 3 kinds of negative responses).
- **Specific indices are derived from survey question groupings:**
 1. **An All-Inclusive Index:**
 - Based on a jurisdiction's unweighted average score on all 18 questions, with the value for the jurisdiction(s) with the highest (i.e. worst) score set at 100.
 2. **A Commercial Environment Index**
 - Based on scores on the fiscal terms, taxation, trade barriers, quality and availability of infrastructure, labor availability and corruption questions.
 3. **A Regulatory Climate Index**
 - From the scores on regulatory uncertainty, cost of compliance, labor regulations, legal system fairness, and regulatory duplication.

The Global Results **(All-Inclusive Index)**

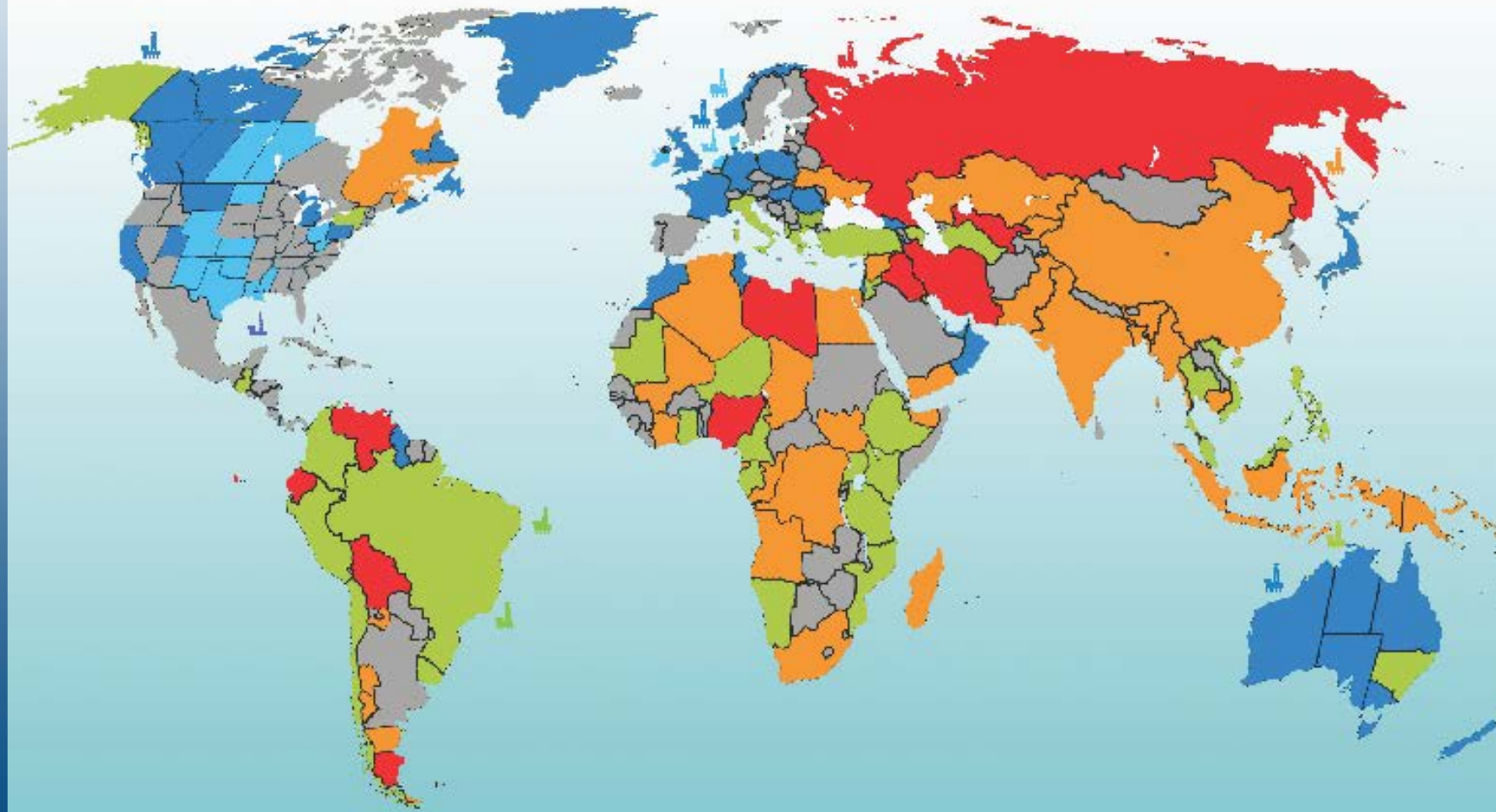


Highlights



- According to the All-Inclusive Index, in 2012 the 10 most attractive jurisdictions for investment were Oklahoma, Mississippi, Texas, North Dakota, Manitoba, the Netherlands, New Mexico, Kansas, Denmark and West Virginia.
- The 10 worst jurisdictions were Bolivia, Venezuela, Iran, Siberia, Libya, Ecuador, Uzbekistan, Argentina's Santa Cruz province, Iraq, and Russia apart from Siberia and offshore regions.
- The US Offshore Alaska region was the 52nd most attractive jurisdiction (of 147). Thirty-five percent of the jurisdictions ranked rated higher.
- Alaska ranked 61st (of 147), indicating that 41% of jurisdictions worldwide rated higher.

Most attractive ■ 2nd Quintile ■ 3rd Quintile ■ 4th Quintile ■ Least attractive ■ Unmeasured ■



2012 GLOBAL INVESTMENT CLIMATE for petroleum upstream development

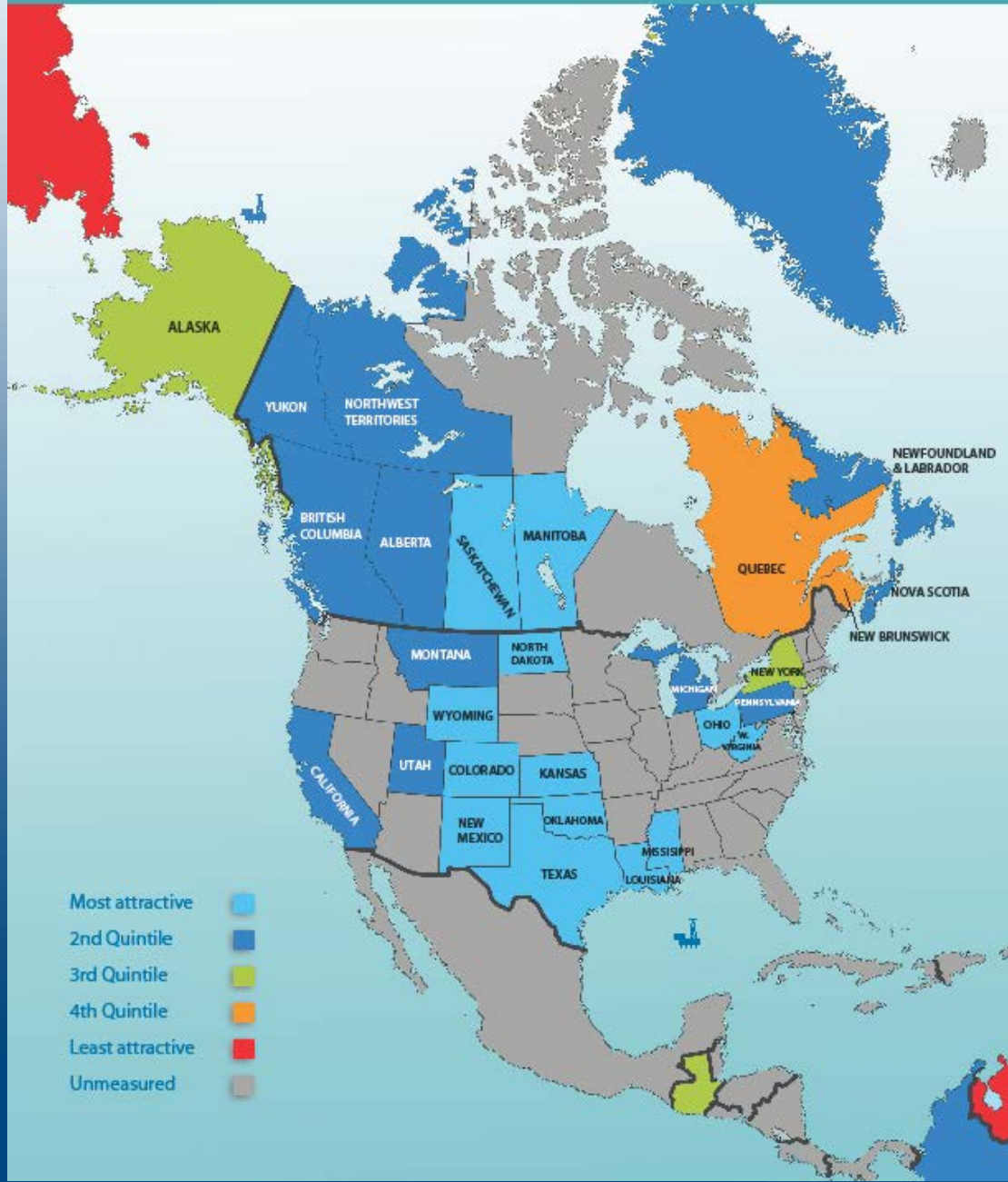
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How Alaska Compares with Other North American Jurisdictions (All-Inclusive Index)

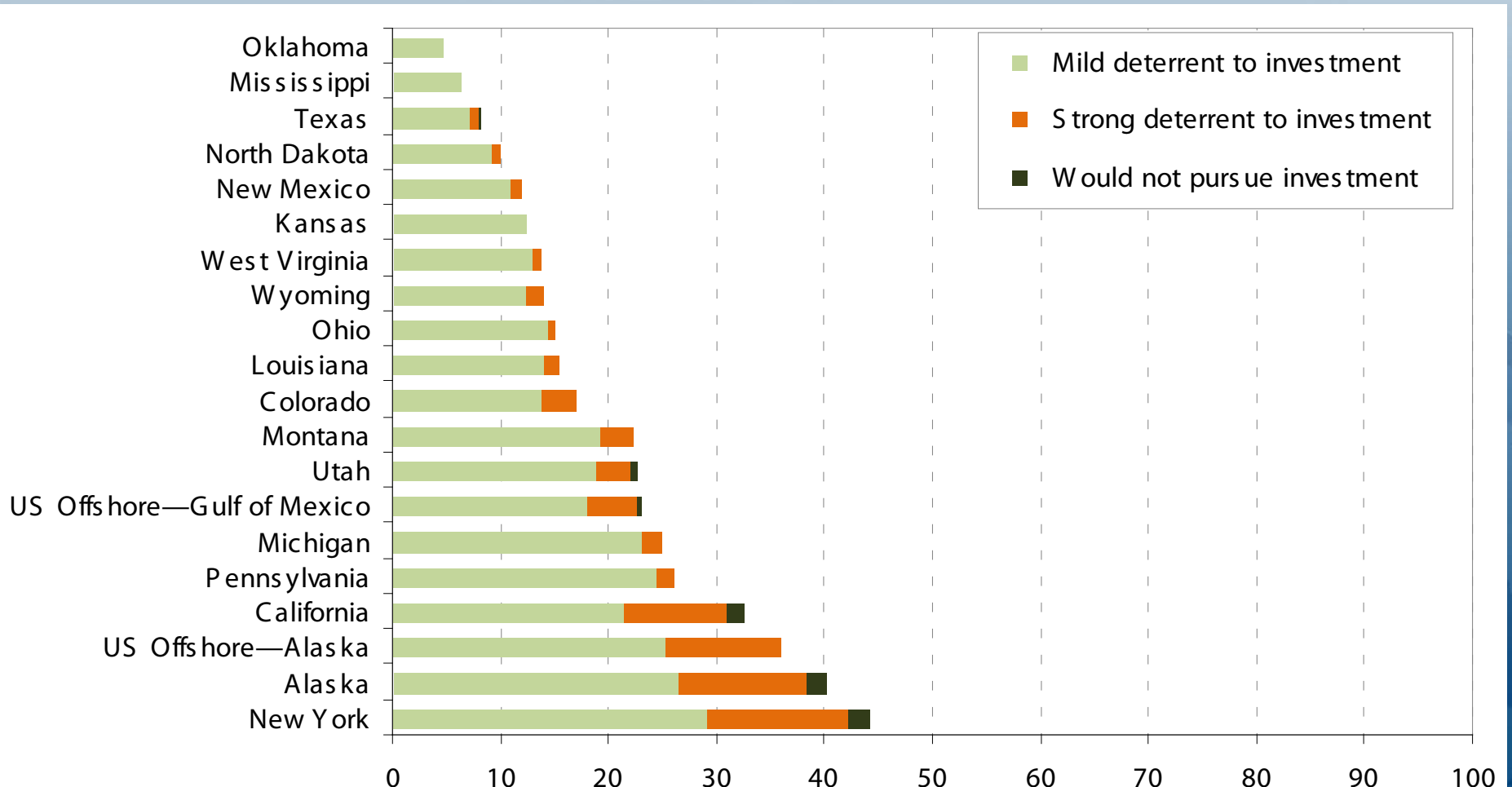


Figure 10: NORTH AMERICA

2012



All-Inclusive Index Values: U.S. Jurisdictions Only



Some Comments Regarding Alaska Made by Survey Participants



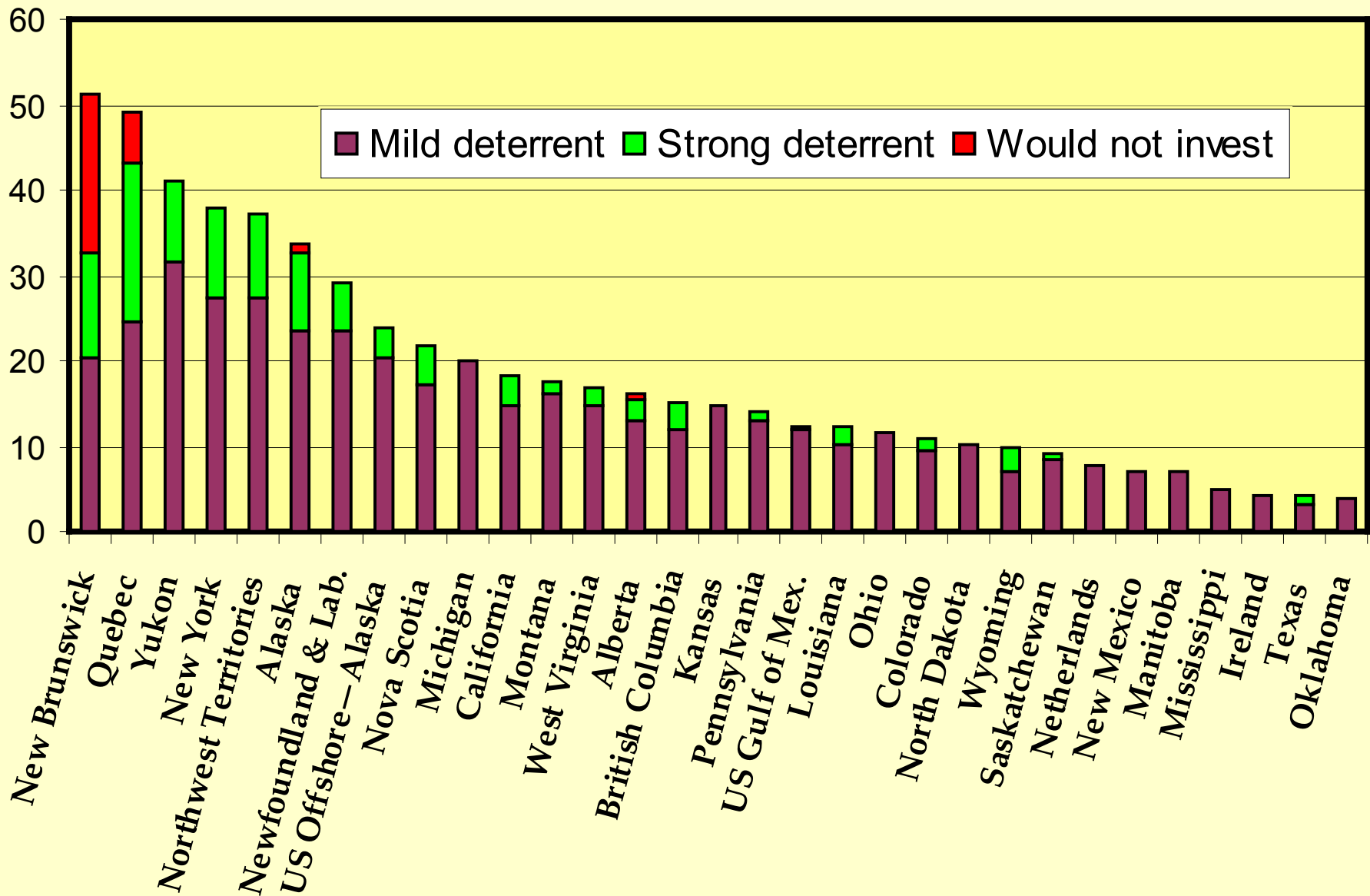
- **Anti-business environment in press and government;**
- **Excessive taxation;**
- **Ridiculously high production taxes;**
- **Constant government interference in our business;**
- **Punitive government regulations;**
- **Heavy NGO involvement -- lawsuits to prevent/delay project developments**

How Alaska's Commercial Environment is Regarded



- According to the Commercial Environment Index, more than 1/3 of the 147 jurisdictions that were rated are more attractive for investment than Alaska and more than 1/4, more attractive than the US Alaska Offshore.
- Further, as illustrated by the following slide, investors view Alaska's commercial environment as among the worst in Canada and the US.

Commercial Environment Index Values: US & Can.



Alaska's Performance on Commercial Environment Issues



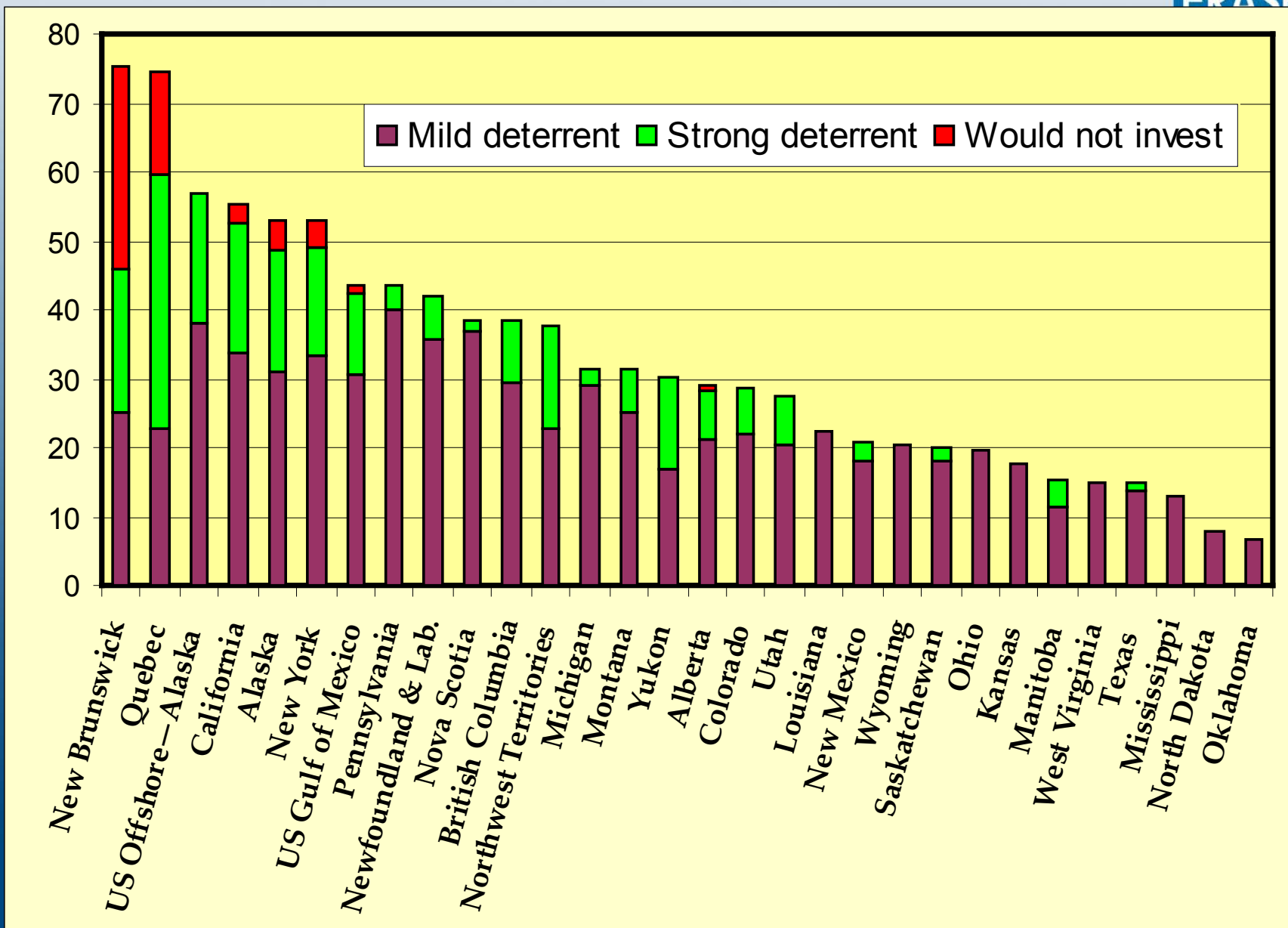
		<u>Rank (of 147)</u>	<u>Score Quintile</u>	<u>Level of Concern</u>
Corruption	AK	51	low 1st	low
	US-Offsh.	1(tied with 31)	lowest	none
Trade Agreements	AK	22	low 1st	low
	US-Offsh.	1(tied with 20)	lowest	none
Fiscal Terms	AK	65	2nd	moderate
	US-Offsh.	28	1st	low
Taxation	AK	51	2nd	moderate
	US-Offsh.	6	low 1st	little
Labor Availability	AK	53	2nd	moderate
	US-Offsh.	86	3rd	high
Infrastructure Quality	AK	91	4th	high
	US -Offsh.	92	4th	high

How Alaska's Regulatory Climate Is Regarded



- According to the Regulatory Climate Index, more than 1/2 of the 147 jurisdictions ranked in the Survey are more attractive for investment than Alaska and the US Alaska Offshore.
- As illustrated by the following slide, investors view Alaska's regulatory climate as among the worst in Canada and the US.

Regulatory Climate Index Values: US & Canada



Alaska's Performance on Regulatory Climate Issues

		<u>Rank (of 147)</u>	<u>Score Quintile</u>	<u>Level of Concern</u>
Labor Regs. & Agreements.	AK	54	2nd.	moderate
	US-Offsh.	21	low 2nd	low
Enforcement of Regs.	AK	48	2nd	moderate
	US-Offsh.	28	low 2nd	low
Legal System	AK	61	2nd	moderate
	US-Offsh.	60	2nd	moderate
Reg. Duplication	AK	101	3rd	high
	US-Offsh.	117	low 4th	high
Environ. Reg. Uncertainty	AK	111	3rd	high
	US-Offsh.	140	4th	very high
Cost of Reg. Compliance	AK	124	low 3rd	very high
	US -Offsh.	139	4th	very high

Alaska's Performance on The Six Other Survey Questions



		<u>Rank (of 147)</u>	<u>Score Quintile</u>	<u>Level of Concern</u>
Security	AK	1 (tied with 36)	lowest	none
	US-Offsh.	1 (tied with 36)	lowest	none
Geological Data	AK	35	1st	low
	US-Offsh.	30	1st	low
Political Stability	AK	68	2nd	moderate
	US-Offsh.	69	2nd	moderate
Socio-Econ. Agreements	AK	49	2nd	moderate
	US-Offsh.	70	2nd	moderate
Disputed Claims	AK	110	3rd	high
	US-Offsh.	48	2nd	moderate
Protected Area Reg.	AK	118	3rd	high
	US -Offsh.	71	2nd	moderate

The Bottom Line



- More than 1/3 of the 147 jurisdictions ranked worldwide appear more attractive for investment than Alaska and the US Alaska Offshore.
- Investors view Alaska's commercial environment and regulatory climate as among the worst in North America.
- To sum up, Alaska's relatively poor performance is mainly due to issues pertaining to 7 factors:
 - the cost of regulatory compliance,
 - uncertainty in relation to environmental regulation,
 - duplication of regulatory processes and procedures,
 - quality of infrastructure,
 - availability of labor,
 - disputed land claims, and
 - uncertainty regarding protected areas.

Thank you



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