

Compass: No industry matches oil and gas for importance in Alaska

By JIM CALVIN June 29, 2014

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McDowell Group recently completed a comprehensive analysis of the oil and gas industry's role in Alaska's economy. For many years we have tracked jobs and wages associated with the industry's spending with Alaska businesses. However, our 2014 study is different because it also measured jobs and wages connected with government spending of oil-related taxes and royalties. This effort to measure all jobs in Alaska connected to the oil and gas industry produced some remarkable results.

The foundation of Alaska's oil and gas industry, a collection of 16 firms that produce, transport and refine oil and gas, directly employed 4,700 Alaska residents in 2013. (These firms have a combined Alaska hire rate of about 88 percent; nonresidents working in the industry were not included in our economic analysis). These 16 companies also spent \$5 billion with businesses in Alaska resulting in a total of 51,000 jobs throughout our economy and \$3.5 billion in total annual wages, including all multiplier effects.

But the economic impact of the industry's spending in Alaska's private sector is only half the story. The industry also paid \$7.4 billion in taxes and royalties to state and local governments. As government uses oil-related taxes and royalties to fund operations, programs, and capital projects, thousands of public and private sector jobs are created. In fact, government spending of oil-related taxes and royalties accounted for an additional 60,000 jobs and an additional \$3 billion in wages in Alaska.

One of the most visible impacts of oil-related revenues is the Permanent Fund Dividend program -- paying \$536 million to 631,470 Alaskans in 2013. The Alaska constitution requires that at least 25 percent of all mineral royalties be placed in the Permanent Fund. Virtually all of the Permanent Fund's principal has come from royalty payments by Alaska's oil industry. Alaskans spending their PFDs supports several thousand jobs in the state.

All told, including private sector spending and payments to government, the oil and gas industry accounted for a third of all wage and salary jobs in Alaska -- 111,000 jobs and \$6.5 billion in wages in 2013.

Another way to think of it, for each job with Alaska's oil and gas producers, pipeline companies and refineries, there are 20 additional jobs in the Alaska economy connected to the oil and gas industry. No other industry in Alaska comes close to the multiplier effect of the oil and gas industry.

While our analysis produced dramatic results, it is actually conservative in its estimates of oil and gas industry economic impacts in Alaska today. For example, it did not consider the jobs and wages associated with the many millions of federal dollars leveraged into the Alaska economy by oil revenue for highway construction and other federal matching programs. Further, oil industry spending in 2014 looks to be substantially above 2013 spending (which was the year we analyzed for our economic impact study).

While the economic impact of oil and gas industry activity in Alaska is profound, it is important to note that Alaska production has been declining steadily since our peak production in 1988 when we produced 25 percent of all U.S. oil. Now we produce 7 percent. And while U.S. oil production grew 15 percent between 2012 and 2013, our production declined 8 percent.

McDowell Group's assessment of the economic impact of the oil and gas industry in Alaska serves to underscore the importance of the decision voters will be making in August. It is abundantly clear that a healthy and competitive oil and gas industry is essential to Alaska's economic well-being.

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