

**"The Outlook For Alaska Supply
Management Services"**

by

Dave Harbour, Publisher

www.NorthernGasPipelines.com

December 4, 2014

This group was born as the Alaskan Purchasing Association in conjunction with the 1970s revolutionary, Trans Alaska Pipeline System (TAPS) and Alaska Native Settlement Claims Act (ANSCA) successes.

Before then, as former Cordova Mayor Margie Johnson reminds us, Alaska was a cold and dark land.

In its evolution, the Purchasing Association grew into the National Purchasing Management Association's Alaska Chapter, an affiliate of the [Institute for Supply Management](#).

I will explain later why it is important that you evolved your name and mission over the years in reaction to reality. At some point 40 years ago, you became more than a 'purchasing agent association', growing into a group of folks that 'manage the supply and purchasing' functions in an increasingly complex, competitive, digital world, using the world's best practices for the world's most savvy companies, governments and non profits.

* * *

Now, back to our main theme. I will establish the challenges you and all of us face, show how these affect the outlook for your functions and employers and suggest how you as supply managers can continue to evolve in response to the current realities.

First, the challenges to your profession. For the purpose of your own career and family planning, we should review both State Challenges and Federal Challenges.

State Challenges

Our **Alaska supply challenges** begin with natural conditions: our climate; proximity to markets; remoteness; labor costs; unconnected or tenuous power, transportation, communication and supply grids and networks. While Alaska has marvelous assets and resources, to live here requires first and foremost that these natural, competitive disadvantages be overcome with the greater value of our resources, productivity and ingenuity of our people, including our supply managers.

Alaska's purchasing institutions also face human challenges here. Atlantic Richfield, now ConocoPhillips, discovered the Swanson River Oil Field on the Kenai Peninsula in 1957. While serious statehood organizing efforts occurred earlier, it was this discovery that enabled Wally Hickel, Bob Atwood, Ted Stevens (then a Federal lawyer) and a dedicated host of other Alaska Territorial leaders, [to obtain a narrow statehood victory in Congress](#), signed into law by President Eisenhower in early 1959.

Those in your profession know all too well that the basis for statehood was the Swanson River discovery's proof that Alaska could survive as a sovereign state of the union and no longer require the dependency and subsidy of a territory.

Another big event occurred with ARCO's Prudhoe Bay Discovery announced in 1968, soon followed by the big \$900 million lease sale in 1969. The important thing for us to remember is that between the Swanson River and Prudhoe Bay lease sale events, oil and gas taxes in Alaska were miniscule. Since Alaska had not been used to spending big bucks, there was not a big constituency demanding big spending and higher taxes. Also, low taxes encouraged companies to take the big Alaska investment risk in spite of the natural investment obstacles noted above.

In the dozen years following the lease sale oil taxes of all types increased about a dozen times with the biggest increases coming right after the companies had invested in and built the TAPS.

[On March 18, 1981](#), Governor **Jay Hammond** along with most of the democrat and republican legislators, passed an oil tax reform bill – and, at the same time, eliminated the individual income tax.

The state of Alaska experienced relatively stable tax policies – for two decades -- until the Murkowski Administration tried to link a production tax increase to a tax stability contract that producers needed in order to invest in the expensive Alaska Highway gas pipeline. Under pressure from the next Governor, **Sarah Palin**, the Legislature went ahead and increased the production tax in 2007 but refused to provide the agreed upon tax stability contract... [dramatically increasing the burden of oil taxes in the state.](#)

That event led to diminished North Slope investment into new and expanded projects, even as the existing Prudhoe Bay field production continued declining...a double whammy. For several years, politicians struggled with how to reform Palin's progressive, production tax to attract more investment and more production.

Those efforts resulted in the 2013 [passage of SB 21](#), the production tax reform bill, and last summer's [defeat of a voters referendum to repeal the SB 21 tax reform.](#)

So, here we are today. Governor Parnell, the legislature and many other Alaskan leaders [championed tax reform](#) and our current Governor opposed it ([Read Rick Rogers' comment](#)).

The transition meetings last week highlighted the inability of the government to balance its budget without subsidy from rapidly depleting savings accounts.

When you consider the savings accounts contain around \$10 billion and the state employee and teacher pension funds have an unfunded liability in the same range, [Alaska is, technically, very close to being broke today \(i.e. if you don't consider the constitutionally protected Permanent Fund\) were all obligations to be demanded at once.](#)

So, from the point of view of your employer, your job, your family's future, how the current Governor handles this challenges will be critical. In fact, the decisions made in the next two years will affect marriages, divorces, college plans, job losses and real estate decisions.

Will Alaska's government, 90% dependent on oil revenue, decrease spending by as much as 50%? Will it take on new spending responsibility, like Medicaid? Will it try to increase industry taxes, or reenact a state personal income tax or a statewide sales tax? Will it try to increase taxes on mining—an easier target—but an economically disastrous decision affecting Alaska's future? How about commercial fishing, tourism?

I think you can begin to see how these decisions will so dramatically affect what you do. Since school districts and the University of Alaska are so reliant on state funding, what purchasing policies will be affected and how?

In a recent speech to the Resource Development Council for Alaska, Governor Walker said, "You can't be anything but pro-oil development in this state to be a successful governor."

A "**Can't Not** Be Supportive" theme of governance is not exactly the attitude of leadership likely to inspire confidence and trust in the minds of those who might otherwise consider multi-billion dollar investments here.

But the people Walker has appointed to head up the Natural Resources and Revenue departments are the same folks who worked with Governor Palin to institute punitive, anti-investment oil taxes almost a decade ago.

We should accept Governor Walker at his word, for now, but also note the pressures and temptations and advisors surrounding him. However this plays out in the state, everyone in this room, our employers and our families are sure to be affected to greater or lesser degrees.

Bottom line: will Alaska or will it not demonstrate that it is an investor friendly place where, "[A Deal Is A Deal](#)?" If it becomes that sort of investment

destination, it may be able to continue being competitive in the face of the natural obstacles noted above.

Federal Challenges

Our **Federal supply challenges** today are also immense. [At statehood, Alaska received 104 out of 365 million acres.](#) ANSCA, in 1971 provided Alaska Native and village corporations with 40 million acres and nearly a billion dollars.

But some of you may remember that in 1980, the Alaska National Interest Lands Conservation Act (ANILCA), made 165.5 million acres off limits to multiple use – compare that to Texas’ 168 million acres. Back in 1959, Alaskans had the expectation of owning 104 million acres and having multiple use access to most of the rest.

Over time, the Federal government has withdrawn lands from multiple use, put many conditions on use of other areas, increased regulatory obstacles on federal, state and private lands. In short, [the federal government now is probably a greater obstacle to Alaska’s survival than it was when we enjoyed territorial status.](#)

This administration, in particular, has allied itself with its environmental constituencies provided financial support through grants; sue and settle lawsuits; and, [promulgated onerous regulations](#) with help from those constituencies. It has sought to make lands off limits with unjustified application of the [Endangered Species Act](#). It has unreasonably delayed projects subject to the Clean Water Act and Clean Air Act. It has by Executive Order created without Congressional Approval an economy killing Ocean Policy and now seeks to have its EPA create an economy and job killing air quality ruling. It has delayed the Keystone XL and ConocoPhillips NPR-A and Shell OCS projects in spite of citizen support and its EPA has sought – in gross violation of constitutional due process guarantees -- to preemptively stop a project on state land before it has even applied for permits.

Most of these hostile actions by our federal government impact the state, its institutions and its people directly or indirectly.

So, based on these challenges, what is the outlook for your career and family planning?

Well, you are pretty much in the same boat as your employer. To the extent that government action is reasonable, predictable and moderate, to that extent can companies plan ahead and have confidence in the future. Since your future depends on your institution's, you should be as concerned as your corporate planners now in the circumstance I have described.

It seems as though investors and citizens are being put constantly off balance. Planning requires multiple alternate (Plan B, Plan C, Etc.) contingency planning that is expensive and can adversely affect productivity.

And, that leads me to the conclusion: how you and this association can and should evolve to meet current challenges.

Like all 501(C-3) non profits, we observe certain rules. I think that over time we have all had the attitude that we should, "err on the side of caution." But I would respectfully submit to you that this practice has led us to not fully representing our membership as these important state and federal policy decisions are being made.

Look. The state government is [90% dependent](#) on oil. [Over a third of the entire economy depends on oil directly and indirectly](#). That means that whether we provide supply management for a state or municipal agency, a non profit, an oil, mining, construction, fishing, retail, tourism or any other institution—we depend on oil. Without it, no one needs us to purchase. Without oil investment – and a lot more of it – there is no demand for supplies.

Now, let's be specific. Just as you evolved from a simple group of purchasing agents in the 1970s to a group of more sophisticated, educated supply managers in succeeding decades, so do you need to evolve in another way to survive. Ben...just as your member better keep educating themselves to grow with evolving technology and practices, so can they evolve in another important way...

Purchasing managers as citizens can work **together** in support of their employers' best interests.

Last night at a downtown arts event, I ran into the CEO of a [major Alaskan non profit organization](#).

We began talking about these sorts of issues. He said proudly, "Oil companies and those who do business with them are our major donors." I said, "When SB 21 was being debated in Juneau did you go down to testify in support of it? Or, when environmental interests supported repeal of SB 21 did you write a letter to the editor opposing the repeal of SB 21 tax reform?"

He said, "No, we're a non profit, but I did sponsor a big cocktail party for our donors and told them how much I appreciated them."

Do you see the point? Hostile state and federal tax and regulatory attacks on our major industry don't hurt its employees. At worst, they go elsewhere or receive a generous severance package. Citizens in this state need to get real and realize that hostile state and federal tax and regulatory policies are an attack on our jobs and our families.

What Can We Do?

So that leads to, "What can we do to help our employers, our careers and our families?"

Well, we can stand up either as an association or as individuals and publically support the oil, gas, mining, fishing, timber and other wealth producing enterprises that support us.

No, it doesn't hurt our tax exempt status for our boards to enact position statements on policies that affect our members. No, it shouldn't be a problem for us to individually write letters to policy makers, respond to federal and state comment periods, etc.

If we decide to not further evolve into action non-profits, we may well find we have no employer to represent at these meetings. Then it will be too late.

Recommendation: form a “Public Policy Committee”. Or, with a small group, the Board could appoint one of its own to be “Public Policy Chair”. Arrange for people to speak, pro and con, about major issues affecting the vitality of the market and our employers’ wellbeing. Adopt positions. Make those positions public. That is one of the ways to assure our own future well being and that of our precious families.

It may very well be true that with our public policy help, Alaska could continue being a great place to live, work, play and sustain families.

Without our support Alaska is positioned to once again become a poor, ward of the federal government...a place with a few government offices and environmental activist non profits...a cold and dark land once again....

Let’s make sure the scenario is a good one.

Let’s get active!

DAVE HARBOUR

(Institute for Supply Management, Alaska Affiliate: 12/4/14)

In the 1970s, Harbour directed public affairs strategy and programs for the two-dozen producer and gas pipeline members of the Alaskan Arctic Gas Pipeline Company. He worked with 27 owner companies to coordinate U.S. strategy, orchestrating grass-roots support for passage of the Alaska Natural Gas Transportation Act of 1976.

He served as a university vice president, CEO of several public and private corporations, Government Relations Director for Arco, Director of External Affairs for the Alaska Gasline Development Corporation and has consulted for Alyeska Pipeline, Exxon, BP, Northern Natural Gas and Northwest Natural Gas, the State of Alaska, airlines, Native corporations and Non Profit companies.

Dave is a former chairman of the Regulatory Commission of Alaska. He served as an official representative to the Interstate Oil and Gas Conservation Commission. He served as Chairman of the Western Conference of Public Service Commissioners Gas Committee and a Vice Chairman of the [National Association of Regulatory Utility Commissioners](#) Gas Committee. Dave publishes one of the oldest energy blogs in Alaska, **Northern Gas Pipelines**, www.northerngaspipelines.com/. It is a one-stop-shop for all Canadians and Americans who require current news, maps, history and reference to Arctic gas projects and related North American energy policy issues.

Dave has served on the national Board of Directors of the Consumer Energy Alliance and is a former chairman of the Anchorage Chamber of Commerce. He was chairman of the Alaska Council on Economic Education and also chaired the Alaska Oil and Gas Association government relations committee. He is former president of the Alaska Press Club and the American Bald Eagle Foundation.

Harbour has addressed hundreds of audiences in the U.S. and Canada. His photographs and energy related articles, editorials and scripts have appeared in hundreds of magazines, newspapers, radio/television and electronic media throughout the United States and Canada.

Contact: Dave Harbour, harbour@gci.net.