Economics

Against that perspective, I would like now to make a few comments on the economics of the Alaska project — a consideration which I do not suggest for one moment can or should be ignored.

As I indicated earlier, I cannot say at present what the total cost of the system is likely to be nor what is the likely cost initially of the gas that flows through the system to markets in the lower 48 states. What needs to be borne in mind, however, is that the cost of that gas needs to be related not to current U.S. gas prices or current prices of alternative petroleum supplies such as heating oil, but to the price of alternative fuel sources — a substantial proportion of them imported from abroad — that may prevail in 1986 and beyond following completion of the Alaska Highway pipeline.

Having said that, let me quickly acknowledge that it is entirely possible that for a few years after gas is ready to flow from Alaska its cost could exceed that of competing alternative supplies. Indeed, that possibility has always been foreseen. It was for that very reason that U.S. authorities provided for the rolling in of Alaskan gas costs with that of other supplies from the lower 48 states as a means of providing for its marketability.

Now I am well aware that concerns have been expressed that this kind of cushion could be removed if the new Administration proposed — and Congress approved — the full deregulation of gas prices. Even if this were to happen, however — and at the moment it is entirely hypothetical — I am confident in my own mind that the powers that be in the United States are sufficiently innovative to devise alternative means of coping with what at most would be a short-term marketing problem.

What it is essential to understand is that a substantial proportion of the cost of the gas initially delivered to U.S. shippers in the lower 48 states will reflect the initially high cost of transporting it from Prudhoe Bay to markets in the South. But as the capital costs of the pipeline become depreciated (which in the case of the southern segments will commence in 1981-82), the costs of transporting Alaskan gas will begin to decline quite dramatically. It is for this basic reason that virtually all the assessments I have seen have concluded that over the lifetime of the project the cost of gas from Alaska will almost certainly be substantially lower than alternative fuel supplies available to the United States in the years ahead.

Before I conclude my remarks, I would like to reiterate my conviction that the undertaking of this massive project is both economically sound and very much in keeping with the national interest of both the United States and Canada in reducing our dependence on insecure foreign petroleum supplies. I have no doubt that over the next several months there will be some major hurdles to overcome. But I am confident they will be overcome simply because of the determination evident on all sides to ensure that they are.

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