

Native Investment & Trade Association

Native American Corporate Success in Resource Development

The history of the Arctic Slope Regional Corporation (ASRC) is heavily intertwined with the development of natural resources in the State of Alaska. ASRC was established pursuant to the terms of the Alaska Native Claims Settlement Act of 1971 (ANCSA). The settlement of aboriginal land claims in Alaska had been ignored for decades and finally came to decision point with the discovery of oil at Prudhoe Bay. The aboriginal peoples of Alaska made claim to the discovery area as well as areas proposed for building of a pipeline to transport the oil to market.

In order to facilitate the construction of the pipeline and development of Prudhoe Bay, the U.S. Congress passed legislation settling the land claims of Alaska's aboriginal people. With this land settlement, the construction of the pipeline was allowed to proceed. The mechanism chosen by the Congress to make this settlement in ANCSA was through the establishment of corporations that would be seeded with a defined amount of cash and land. This land and cash was apportioned among twelve regions in the state of Alaska and a limited amount of cash allocated to a thirteen region outside the state. The Act set up a structure for issuance of stock in for-profit regional corporations and also for establishment of village corporations more at the community level. It is beyond my presentation here to go into the details of this, but suffice it to say that the corporate model was applied across the state rather than the reservation model more common in the rest of Native American America. The political and hunting rights issues were not as clearly addressed and continue to be matters of contention and litigation to this day; again, that more than will be covered here today. While not a Native controlled entity, the people of the North Slope region have relied upon a locally controlled borough or county form of government that is a subdivision of the state to serve its political self-determination.

The Arctic Slope Regional Corporation was one of those regional corporations provided for in ANCSA and was incorporated in 1972 following passage of the Act. ASRC's area of influence or home region is the North Slope of the state, about one-fifth of the state's area. In contrast our population was about five percent of the total Alaskan Native population at the time of the passage of the Act. The amount of cash allocated to the corporation was related to the size of that population and was approximately \$22.5 million of initial capitalization for the company. The land allocation was based on population and size of the area claimed, entitling ASRC to nearly five million acres of land.

While ASRC was not initially pleased with the land settlement terms because it felt too much was being given up (for example while it claimed the Prudhoe Bay area, none of those lands were included in the lands it could receive in settlement), it immediately proceeded to take advantage of the Act's provisions. The basic structure of the company was determined by the fact it was incorporated as an Alaskan corporation with a few mandatory matters dictated by ANCSA. However within the traditional corporate structure it embraced the traditional cultural values of the Inupiat Eskimo owners or stockholders to the maximum extent possible. Among these values are:

- Respect for Nature
- Respect for Elders
- Cooperation
- Sharing
- Humility
- Spirituality

Compassion
Humor
Avoid of Conflict

Building on these and other values, the corporation has sought to blend the best of both the Western and Eskimo worlds in its business operations and deliver value to its shareholders. The corporate mission-vision of providing “economic and cultural freedoms” to the shareholders flows from this. The economic freedoms are enhanced by providing opportunities for employment and through the provision of dividends and other benefits to the shareholders. Cultural freedom follows economic stability and independence and the corporation works to ensure the traditional values and practices are continued. This means helping to fight to protect cultural practices that may come under attack, such as subsistence whaling, and it means ensuring that business practices recognize cultural values and adapt to the best of these practices.

ASRC operates in four major arenas:

1. Shareholder and cultural guardian
2. Financial Investor
3. Business owner and operator
4. Resource owner and developer

It’s primarily the last two areas that are the subject of the discussion today, as they represent the ways in which ASRC has been involved in resource development. With the corporation’s mission in mind, the primary objectives are to make a profit and return on its investment to allow for paying dividends to its shareholders and to create employment opportunities for its shareholders. These will often be weighed together and a greater return sought where there is little or no opportunity for employment.

As “Business Owner” ASRC has invested in a number of business operations and companies. Often starting out in a joint venture or minority owner the company has leveraged its experience over time to buy out control of various entities so that the preferred mode of operation today is to control its investment operations. It has experience with many approaches:

1. Joint Venture- these can be corporate, LLC or partnership structure but all involve working with another party that brings something of value to the relationship, such as operating experience, capital, market contacts or some specialized technology. These can take the approach where ASRC is the controlling partner or takes a minority role. Because of the minority ownership nature of the company, it is often strategic for ASRC to take a controlling position. While ASRC will take a direct ownership position at times, it usually uses a subsidiary entity to assume this role. This allows it to develop the expertise and management capability within its own company controlled entity over time.
2. Start Up- Where ASRC has identified a particular opportunity it will hire the needed expertise and form a company around that opportunity and then grow the company over time into an independent operating entity. This requires hiring the best talent you can find and committing the resources to support that management group financially. It means giving that group the freedom to manage and succeed, but it also requires holding them accountable and making changes when necessary. The values ASRC brings as noted below must be given the priority and not mico-managed.

3. Acquisition- ASRC will also buy existing businesses to get into a specific market or line of business. This can be a new stand alone industry, or more likely, as an add-on to an existing operation. Thus growth is facilitated by acquisition as well as internal or organic expansion. This history of acquisitions in North America is mixed and we have had our winners and losers. It does take an active management approach to reach success and requires avoiding the “politization” of the business that seems to often happen with Native American owned enterprises. The corporate structure of ANCSA rather than a sovereign reservation approach may be beneficial in this arena.

4. Passive Investments- This may be somewhat of a variation on the joint venture approach, but involves an investment that entails a small percentage of a business and little or no management involvement. This is more unusual for ASRC, but is an important part of the corporation’s portfolio strategy. It has involved investments in the stock market as well as alternative equity opportunities. A recent example is the investment the corporation made in the telecommunications industry to own cell phone licenses for development in the United States.

Turning to the types of businesses or industries that ASRC has invested in, the main business areas owned are heavily biased to the natural resource sector:

Oilfield service contracting- This is the largest sector of ASRC’s operations and has been an area of activity in one form or another for nearly all of its thirty years of operation. Taking most of the approaches noted above at one time or another, today this is a wholly owned subsidiary of the corporation. Through this division ASRC provides a broad spectrum of support and construction services to the major oil company operators on Alaska’s North Slope. It is in direct support of resource development and brings ASRC’s interests into alignment with those major oil companies. Through acquisitions it has also expanded into the Gulf Coast and Canadian markets, as noted by the TriOcean operations here in Calgary. Today its services take it all over the world. As this group has grown and developed, it is also moving into more technical service areas and developing “turnkey” drilling service capabilities for independents entering the Alaska resource market. This division also provides a long term source of steady employment for our shareholders, especially as many of the initial generation of service industry employees are nearing retirement age.

Oil refining and distribution- ASRC owns two of the four commercial refineries in Alaska . It produces commercial jet fuel, military jet fuel and heating oil for distribution in state. While a producer of gasoline, it is a major retailer through a number of gas stations in interior Alaska. It also supports the fuel needs of its various village communities across the North Slope with annual fuel purchases for heating, power generation, transportation and other energy needs. This business was developed overtime through all of the means noted above, to the point where today it is a group of wholly owned subsidiary operations.

Engineering and construction- One of earliest activities of the corporation was construction, primarily in the communities on the North Slope in its home region. This was one of the ways the company was able to provide employment opportunities for its shareholders near to their home communities and in jobs that did not require significant new training. Today its operations extend across the state and in the “Lower 48” states as well. Its engineering operations have offices or projects in most of the western U.S. states.

Government facility service contracting- Focused primarily on providing services to federal government agencies, this is the newest and one of the fastest growing sectors of the companies operations. Increased outsourcing and privatization of government services along with emphasis on utilization of minority owned contractors has supported growth of this activity. Of the four areas of business activity noted, it is the one least oriented to resource development.

In considering the businesses to invest in and expand, the company looks for strengths or advantages it may have. Among those ASRC has sought to emphasize are the following:

1. Political- Somewhat a product of other factors, its presence in the market and stature provide an advantage to promote. As one of the Alaska Native Regional Corporations created under ANCSA, it continues to have strong connections to the Federal legislative process as that Act is updated and modified with the passage of time. This helps to open doors and make introductions, but performance and capability ultimately will prove more important in the long run.
2. Land Ownership- The lands that ASRC owns are themselves strategic for resource development. As owner, it is able to require certain contractual preferences for its business units. Also as an owner, resource companies come to it for the basic rights to come onto its lands for direct exploration or for access where adjacent governmental lands may be the subject of exploration and development activities.
3. Capital- With its initial capitalization and with the financial resources it has been able to build over the years, it can influence business decisions and seek to be a player in new opportunities. Those with development ideas or concepts seek out this capital strength. This is not venture capital, but utilization of capital strength to support other investment objectives.
4. Minority Ownership- The ownership of ASRC by its Inupiat Eskimo shareholders makes it a minority owned entity. This is of significant advantage in a number of U.S. Government procurement programs and of value to private companies seeking diversity in their supplier base.
5. Arctic Knowledge- While of limited advantage outside the arctic, it is a definite benefit in seeking work in arctic regions. It is a distinguisher in the market place in competing with other service companies in the resource development arena. This is knowledge and capability that has been built up within operations in the Prudhoe Bay region, with acquisition of operations here in Calgary as well as that knowledge possessed by many of the shareholders that have grown up in the arctic.
6. Commitment to Area- The fact the arctic is the homeland of the companies owners and is the area where most of them live gives us an unique perspective on making sure the environment and habitats are protected for the future as resource development occurs. We are also here to stay and will be here after the resource developers leave, so are often sought out for long term solutions to development issues.
7. Capability and performance- Ultimately, the ability to perform safely, on time and competitively will be determinative of contract decisions. All the advantages one can exploit in the market place will help, but

performance must be demonstrated. This needs to be kept in mind at all times and not forgotten in making investment decisions. Without it, resource development businesses, or any other, will not succeed.

Resource Developer is the other major way in which the corporation acts. With the initial rights the corporation had to receive lands from the Federal government for the Inupiat people's settlement of their land claims, it moved very quickly to enter into development agreements with major oil companies to help evaluate the lands that were made available for its to choose from. These companies performed surface and seismic evaluations to help recommend which acreage to choose. The early years saw a number of wells drilled on ASRC lands, but no commercial oil discoveries were made.

The major relationship ASRC had on its lands was with Chevron USA. That company drilled a number of wildcat wells across the arctic on ASRC lands and at one time was the largest lease-holder in the state based on its ASRC relationship. While not successful in finding commercial oil fields, several hundreds of millions of dollars was expended on ASRC lands.

This was the primary means ASRC used to exploit its lands holdings. It did not have the funds or resources to directly assess all the potential lands available to it or to explore the lands it received from the Federal government. The exploration and lease agreements facilitated this evaluation, though it committed the lands to defined lease terms well in advance of the company having much geologic knowledge about those lands.

ASRC has actively managed its lands to evaluate their potential and seeks alternatives once geologic assessments or drilling results indicate oil and gas resources may be lacking. It has effectively traded lands with the Federal government where lands it received as part of the ANCSA entitlement continue to have recreational and other natural resource value to the government. This path was used to acquire the subsurface lands it currently owns in the Arctic National Wildlife Refuge in the northeast part of the state. It has also continued to offer large portions of its lands for exploration, and currently has a large portion of its holdings in the central arctic area of its region under evaluation by Anadarko Petroleum and partners.

It wasn't until the mid-1990's that ASRC saw its first commercial development on lands that were received pursuant to ANCSA. This is the Alpine Oilfield. ASRC owns a small portion of the lands in this development, with the State of Alaska owning the larger portion. The operator on this field is ConocoPhillips, having started as ARCO Alaska. Anadarko Petroleum is also a working interest owner in this field. Producing somewhat over 100,000 barrels a day, ASRC owns about five percent of the production. This interest is subject to section 7(i) of ANCSA which provides that seventy percent of all sub-surface resource revenues must be shared with the other eleven Regional Corporations. With current prices and production, ASRC pays out to the other eleven Regions nearly twenty million dollars a year.

In looking to the future, ASRC has a number of areas for encouragement, including:

1. Independent Operator- ASRC is positioning itself on the North Slope of Alaska to become an independent oil and gas operator. As the major oil companies find that the mature fields on the North Slope no longer meet their investment criteria, they look for others to take over or take a portion of their positions. This seems to be a common pattern throughout the world, including North America. The first part of this effort was to expand the capabilities of its operating oilfield service group to help support increased subsurface and exploratory capabilities. The first major agreement signed this year is with BP Alaska to establish a strategic alignment for ASRC to participate in smaller opportunities in the established producing fields on the North Slope.

We are just now negotiating our first commercial agreement pursuant to that arrangement and hope to be involved in an exploratory effort this winter. While we may look at our own lands in the future, the initial focus is on smaller efforts closer to established producing infrastructure. This is designed to build on our existing and developing capabilities as well as expand those capacities. It also complements our position that ASRC is here to stay for the long term and will be active on the North Slope as the major companies are exiting and beginning to turn out the lights.

2. ANWR- While the Arctic National Wildlife Refuge remains closed to oil and gas development, we remain optimistic that at sometime a decision will be made to permit exploration in the ANWR Coastal Plain and development of the ASRC owned lands. Our lands remain committed to a long term development agreement with ChevronTexaco and BP.
3. Coal- While ASRC's carbon deposits have not developed into diamonds yet, they are valuable as a high quality source of coal. Various development and transportation scenarios have been evaluated and continue to be monitored for the right market opportunities. Regional and industrial power opportunities at the coal province in the far northwest portion of the our region are also under active investigation.
4. Hardrock Minerals- Opportunities for finding of various hard rock minerals also continue to be evaluated. Areas in the western portion of ASRC's lands, some near the large NANA-Teck/Cominco lead-zinc mine hold strong promise.
5. Gas- Much of the assessment in the central arctic is focused on natural gas potentials and ASRC has some areas of known gas deposits on its lands. The key to the commerciality of this gas is a transportation system, and for this reason ASRC is a strong proponent of the gas line to the "Lower 48" through Canada. As part of this support, ASRC is pursuing with the other Regional Corporations an opportunity for equity participation in a gas line, much as the First Nations groups have done in Canada.

In conclusion, ASRC remains optimistic for natural resource development opportunities to remain a large part of its portfolio. It has recently refined its focus back to more core natural resource activities, eliminating some of its unrelated investment activities. Despite the maturity of activity in Alaska and controversy over energy needs of the world, we remain confident that natural resource activity has a good future for us and will see us one day as the most successful indigenous oil company in the world.