Anchorage Daily News | Page A07 Friday, 1 October 2021

Alaska Native corporations slowly approach shared revenue ‘cliff’

NATIVE CORPORATIONS

Alaska Journal of Commerce, by **NATIVE CORPORATIONS**

Alaska Native corporations slowly approach shared revenue ‘cliff’

Elwood Brehmer

Alaska Native corporations across the state face a “fiscal cliff ” of their own that is still years off, but there are currently few options to avoid it.

For decades, the 12 Alaska Native regional corporations and nearly 200 village corporations statewide have shared revenue generated from resource projects amongst themselves to the tune of roughly $3 billion since 1982, according to figures from a 2018 report on the revenue sharing program by the McDowell Group combined with more recent data. Generally known as the “Section 7(i)” program for its place in the Alaska Native Claims Settlement Act, the provision in the landmark legislation directs Alaska Native corporations to distribute 70 percent of the revenue originating from resource projects on their land to the other Native corporations statewide. The land or resource owner company keeps the remaining 30 percent.

ANCSA Regional Association Executive Director Kim Reitmeier said the 7(i) program is a critical component of ANCSA “that truly reflects the Alaska Native values of unity and collaboration.” Revenue from the 7(i) program has been a significant source of funds for benefits each of the regional corporations have offered their shareholders, according to Reitmeier. The money is often used for cultural education, language revitalization, and scholarships, or is paid directly in shareholder dividends, but the individual corporations ultimately determine how it is spent.

“There’s been trials and tribulations for the regional corporations and 7(i) revenue, and assistance from the other regional corporations has been paramount in the success of all of them,” she said. Revenue shared in the program — greatly influenced by commodity prices and production — totaled $246 million in fiscal year 2019 and $158.4 million last year, according to Reitmeier.

She also noted it’s a model that flies in the face of the country’s traditional business principles.

“It’s really something that baffles the mind. Ask Lowe’s and Home Depot and all those entities to share profits with each other. You take those concepts to Western business cultures and it blows people’s minds,” Reitmeier said.

From 2015 to 2017 Bristol Bay Native Corp. collected between $5.6 million and $9.6 million per year in 7(i) revenue, net of what the company also turned around and distributed to village corporations in its region through the closely linked 7(j) program, according to BBNC’s 2017 annual report.

Section 7(j) of ANCSA subsequently directs the 12 regional corporations to distribute half of the shared revenue they receive to the area’s village corporations.

The 12 regional corporations are all involved in numerous industries and business sectors, from government contracting to oil field services to remote fishing lodges, typically through subsidiaries and partnerships. And while many village corporations are often more focused on a single industry, whether drilling oil wells or managing parking garages, Alaska Native Village Corporation Association Executive Director Hallie Bissett said that the 7(j) income accounts for all or nearly all of the revenue collected by approximately two-thirds of the 177 village corporations that are ANVCA members.

Similar to Reitmeier, Bissett said the emphasis on spreading the benefits of natural resources across the state is one of the first socially responsible business models.

“People often forget the Alaska Native piece of ANCs and just focus on the corporation,” Bissett said.

“It’s very similar to the way we would share subsistence food,” she added.

The problem lies in the fact that resource revenue from Alaska Native corporation-owned lands is generally declining and the fall is likely to accelerate in the coming years.

As is the case with oil production across the North Slope, production from lands owned by Arctic Slope Regional Corp. or state leases to which ASRC holds an overriding royalty interest has been on a downward trend, with no outlook for an abrupt recovery.

Shared revenue from the Red Dog mine in northwest Alaska — one of the world's largest zinc producers — also has an expiration date, and it's the one Bissett is most concerned with.

"There's a huge cliff coming for 7(j)," she said in an interview.

Opened in 1989, the Red Dog mine is on NANA lands north of Kotzebue. However, the metal deposit Red Dog operator Teck Resources Ltd. has been mining from is projected to be exhausted by 2032, according to Teck, with a likely ramp-down of production in the years preceding closure.

Teck leaders in 2018 announced a second major discovery in 2018 that company representatives characterized as another worldscale zinc prospect, but it is on nearby state land.

A spokeswoman for NANA did not respond to questions about royalty and 7(i) revenue from Red Dog in time for this story.

According to the Alaska Industrial Development and Export Authority, which owns the industrial toll road used to access the mine, royalty payments to NANA average greater than $130 million annually. Through 2016, Red Dog had generated more than $1.3 billion in royalties for NANA, of which $860 million was subsequently distributed to Alaska Native corporations through the 7(i) and 7(j) programs, according to figures in a 2017 AIDEA asset review report.

"Awareness is the first big piece," Bissett said in regards to addressing the looming dilemma. "Some (village corporation leaders) don't even know where the money comes from."

She said Native corporation leaders attempted to get a 3 percent royalty from possible oil production from the Arctic National Wildlife Refuge but that was unsuccessful.

Leaders of the Donlin gold project in the upper Kuskokwim region of Western Alaska tout their worldscale prospect — with the potential to produce upwards of 33 million ounces over a nearly 30-year planned mine life — as a possible solution to the 7(i) and 7(j) revenue outlook. The Donlin prospect is on land owned by The Kuskokwim Corp., a consolidated village corporation and, as is the case across the state, the subsurface rights and royalties are controlled by the regional corporation — in Donlin's case, Calista Corp.

A Donlin spokeswoman referred questions about royalties to Calista officials.

Calista spokesman Thom Leonard noted via email that Donlin isn't the only resource development opportunity on Alaska Native- owned lands, but it is the next major opportunity after Red Dog to contribute to the 7(i) program.

"Like we can't predict how many fish we will catch, we can't speculate on the amount of 7(i)/7(j) revenue (from Donlin). It will depend on the price of gold and other factors. That said, if the Red Dog mine is any guide, we expect to be a significant contributor to 7(i)/7(j) distributions to all Alaska Native corporations," Leonard wrote, also noting that Red Dog accounted for 70 percent of all 7(i) revenue between 2015 and 2018.

Bissett concurred that Donlin could be a major source of shared revenue, but also added that it is several years from the start of a lengthy construction process, if the mine is ultimately built at all. She suggested it could be 20 years before significant 7(i) revenue is collected from Donlin.

"As my chairman said, (shared revenue) is the difference between being in business and not in business" for many village corporations, Bissett said.