

ALASKA NATIVES HAVE SOMETHING TO SAY TO THEIR ANDEAN COUSINS

Dateline: January, 2006

They struggled to scrape a subsistence living from a harsh world, as their ancestors did for thousands of years before them. The modern world had passed them by. Earning only a few dollars per day, and with the worst life expectancy, infant mortality, and housing on the continent, they watched as settlers from more powerful places had taken over their lands and made it rich, but not for them.

In their heart of hearts, they felt a resentment and rage that sometimes turned to violence. And so they brought oil development to a standstill, precipitating a great crisis.

What sounds like the story of the Andean indigenous today, is the true story of Alaska's Eskimo, Indian and Aleut peoples only thirty years ago. Yet it is not their story today.

In little over one generation, Alaska's Natives more than doubled their per capita income, and virtually conquered the plights of poverty, sickness and early death that plagued them for centuries. They did so by integrating with the 'newcomers' economically and politically, while protecting cultural values that had helped them persevere from time immemorial. This is not say that all of the problems of poverty in Alaska have been solved, it is to say that more has been and is being accomplished than in any comparable area of the world.

Today, the indigenous enterprises of Alaska are among the most powerful engines of wealth creation in the state. They are fast, flexible and flat organizations that have written a new chapter in democratic capitalism, ranging from a Native oil company with over a billion dollars of earnings per year to the largest zinc mining operation in the world.

How they made this modern breakthrough while protecting their heritage is a story about profound courage for their cousins in warmer climes.

Crisis in the Andeans

There are millions and millions of indigenous poor people in Bolivia, Ecuador and Peru who have come to the breaking point with their European 'newcomers' who made it rich while they remained poor. Governments are toppling. Investment is falling precipitously. Development and democracy are threatened. If the trend continues, there seems almost no way to avoid a collapse into weakened or even fully failed states.

As the indigenous see it, democracy is not working for them, and capitalism isn't either. The Latin gap between the rich and poor is one of the largest on earth, and is not improving. As the Peruvian Hernando De Soto has documented in *The Mystery of Capitalism*, the indigenous possess lots of 'dead capital' while governments and corporations possess the real money from resource development of their traditional lands.

The Andean indigenous are not part of the modern economic action and they know it, they resent it, and they are stopping it as a result.

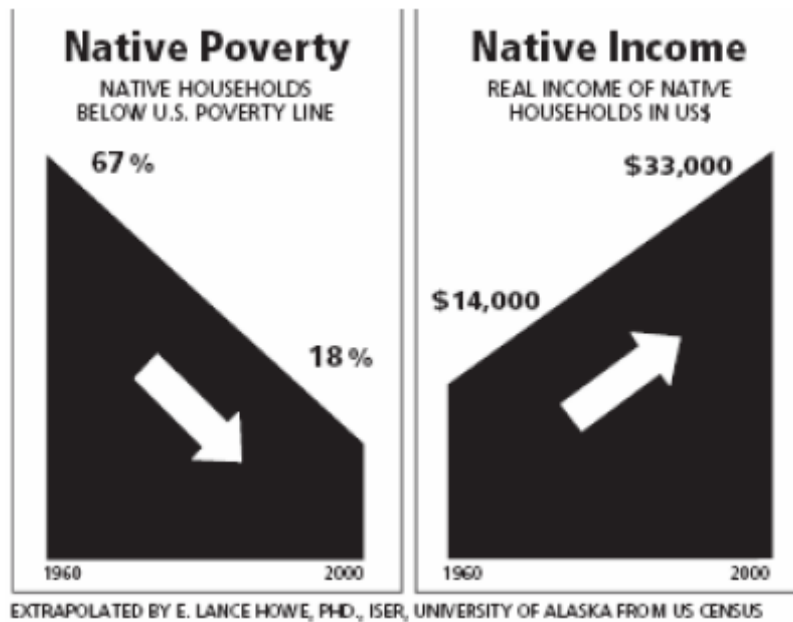
In Ecuador and Peru, national growth has not trickled down to the indigenous in a way they can feel or respect it. And in Bolivia, indigenous leaders are inclined to leave the gas in the ground or nationalize the hydrocarbons industry, failed policies which will increase poverty and perhaps collapse the nation.

Bolivia is being torn both by indigenous rage against poverty, and by secessionist movements in Tarija and Santa Cruz, where wealthier, ancestral Europeans sit on the undeveloped gas fields, which they think belong more to them than the nation, or the indigenous. Bolivia is a tinderbox awaiting a match.

The Alaska Solution

In 1970, Alaska's indigenous were few in number but highly diverse by language, ethnicity, culture and history. Creating the Alaska Federation of Natives (www.nativefederation.org) – even settling on the word 'Native' – was a huge step forward. But when the Native land claims put a full stop to oil development -- the same issues facing Bolivia today – they sat down at the table to negotiate a deal with government and oil. It was all or nothing.

A win-win deal was hammered out, making partners of all three interests, which has lasted to this day. The Natives received 44 million acres and \$960 million to finance 13 big and some 200 village-based indigenous enterprises in which each indigenous shareholder was equal. The enterprises pooled some of their earnings with the others so none of them would totally fail. The Native people got on the fast track to learn about business, investment, alliances, and management, which they did quite successfully.



Trans-Alaska pipeline construction permits and State of Alaska land selection followed, and development took off like a rocket. The outcomes were impressive: Poverty among Natives declined from 67% to 18% in one generation, as household income increased by 236%. Natives lived longer, healthier lives. And the gap between native and non-native became smaller in Alaska than any of the 50 states.

Synergies occurred. The State received \$36 billion in new revenues, and created the Permanent Fund, now \$30 billion big, which provided Alaskans \$1,000 per capita since 1978. And the oil companies – BP, Exxon, Arco and Mobil – while going in with one of the biggest costs and government ‘takes’ in oil production history, came out with some of the highest profits worldwide.

Not to be outdone, the Native enterprises turned less than \$1 billion in capital into \$30 billion in corporate earnings in 30 years, of which substantial portions went to indigenous employees, contractors and shareholder dividends. Alaska earned \$36 billion in royalties and taxes, much of which was ploughed back into infrastructure and education.

Alaska history – like all histories – is unique. The Alaska indigenous solution is not a magic wand for Bolivia, Ecuador or anywhere else. But its lessons are fundamental to nations stuck where Alaska was stuck in 1970, as the following stories will tell.

ALASKA ESKIMOS EARNED TEN TIMES MORE FROM OIL DEVELOPMENT THAN ECUADOR'S QUICHUA

Dateline: January, 2006

Two similar oil developments near indigenous villages in the early 1990s, one in Villano, a Quichua community of 2000 people in eastern Ecuador, and the other in Nuiqsut, (www.north-slope.org) an Eskimo community of 420 on Alaska's North Slope, produced \$5 million in benefits for the Eskimos but only \$500,000 for the Quichua.

Sharman Haley, a researcher with the Institute for Socio Economic Research of the University of Alaska at Anchorage found out why. http://www.iser.uaa.alaska.edu/iser/people/Sharman/Ecuador_AK%20Oil.pdf

The surface similarities are extensive: two small, remote indigenous villages; an enlightened oil company [Arco] developing both fields; the same road less remote field design to protect the environment; and similar discovery, construction and production times and schedules. What accounted for the extraordinary difference in benefits to the indigenous is documented in Dr. Haley's paper: the Eskimos were prepared for development, and the Quichua were not.



Children of the tundra, North Slope Borough, and of the rainforest in Ecuador

Nuiqsut

The abandoned village of Nuiqsut, where temperatures dip to -40 degrees F in winter, was resettled in 1973 by 27 families who moved from Point Barrow, 400 miles to the northwest. The re-established Nuiqsut took advantage of the indigenous corporate tools the 1971 settlement act had provided for them to make money, and they did so with gusto.

By the time Arco discovered oil nearby, in 1986, Nuiqsut had a lot going for it. Local governments were established -- the North Slope Borough (www.north-slope.org) for a region the size of Indiana, and the Nuiqsut village government. These were integrated into the state and federal structure of the U.S., including its courts for dispute resolution.

And there was the Arctic Slope Regional Corporation, (www.asrc.com) the economic engine of the North Slope, which Nuiqsut Eskimos all had shares in; plus the Kuukpik village corporation, which was theirs to develop as they liked. (www.kuukpik.com). Both corporations had been provided some land and money from the 1971 settlement, which they invested wisely.

So when Arco began to negotiate with the corporations ASRC and Kuukpik, and the governments of North Slope Borough and Nuiqsut, it found itself dealing with the Arctic version of high-powered Wall Street lawyers.

The deal that emerged gave Nuiqsut \$4.5 million, or 3.2% of the total government "take" of \$139 million, from a well head production valued at \$570 million. In addition, Arco spent about \$500,000 more in Nuiqsut community benefits for a total of \$5 million.

Villano

Contrast that to Villano. The sovereignty and property rights issues were weak and poorly defined. The village council operated with limited, disconnected powers. There was no indigenous corporation to contract with, business experience to negotiate with, or independent court for dispute resolution. Few of the local leaders spoke Spanish. There was no indigenous consensus on how to proceed, a there were no outside attorneys or business consultants to help.

Arco, an enlightened oil company that knows it may be involved for 30 or 40 years in oil field development, tried to help. It negotiated with the Organization of Indigenous Peoples of Pastaza, culminating in a 1994 summit meeting agreement in Plano Texas. A committee was established including Arco, Petroecuador, and three regional organizations. But no institutional capability, corporate or government was available to finalize a deal or implement it for local benefits. So when the deal went down, it was just Arco and the national government at the table.

Never giving up, Arco created “A Good Neighbors’ Forum” and in its monthly meetings, Villano community leaders prioritized about \$500,000 of Arco spending for social benefits – this is about what was spent in Nuiqsut as well.

In the final Villano oil development deal, the total percentage take by government was not fully disclosed, but it is estimated to be greater than the take at Nuiqsut. Villano’s percentage of that take was zero – it all went to the national government. The national government had agreed to share a few percent of the take with Villano, but there was no indigenous corporation or local government institution in existence with the capability to receive, implement or account for it.

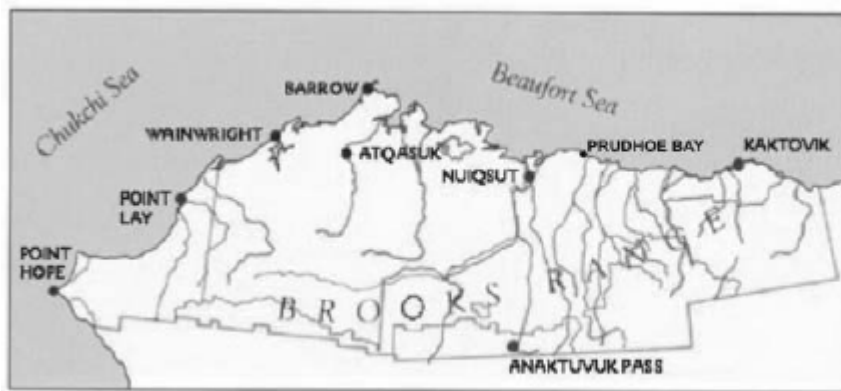
The Difference

Today, Villano has very little employment or cash income, and less hope of creating it. Only half the school-age children are in school. Homes have no running water or toilets. Everyone is poor.

And the essential tools for wealth creation – the indigenous corporation and the local government – either don’t exist or are very weak.

In Nuiqsut, which has thirty years experience with solutions, median household income is now \$48,000 and median house value is \$90,000. Over 60% of those 25 or older have high school educations, and 10% have university or post-graduate degrees.

Perhaps the most telling statistic is the number of infants who die per 1,000 born in Villano and in Nuiqsut: 57.6 infants here, 2.3 infants there. Institutions count.



Using these tools, the Arctic Slope Eskimos went into business with the enemy, the oil companies, to create wealth for its shareholders. And with the \$7 billion of revenue from the oil field and pipeline property tax, the North Slope Borough (www.north-slope.org) government created housing, schools, water, electricity, sanitation and modern infrastructure.

In one generation, a transformation was achieved from an unstable economy depending upon subsistence hunting and fishing in the harshest environment of the world, to a stable economy engaged with global industrial competitiveness.

This development did not come at the expense of indigenous self-determination, land rights or collective culture and tradition -- these values were built into the settlement and remain protected by law.

Native corporations pool 70% of their subsurface earnings for all indigenous corporations to share in – this is so none of them totally fail. ASRC is now paying into that pool big time, but when its oil and gas run out will receive revenues from other corporation’s resources.

The Bolivia Difference

Looking back at how the development crisis was resolved in Alaska 35 years ago, the most significant difference with Bolivia today is enlightened leadership -- political, indigenous and industrial.

Alaska's state and national politicians – none of whom were indigenous – were deeply concerned about indigenous poverty and wanted a fair settlement of claims for them. The private sector wanted one integrated Alaskan economy. And the oil companies wanted the Natives as allies and partners in the oil fields, not as enemies and terrorists.

Yet the most profound evolution of leadership occurred within the Alaska Natives themselves, and nowhere was it more striking than in the Arctic Slope.



The late Eben Hopson, Founding Mayor of the North Slope Borough and Eskimo Firebrand Etok, Charlie Edwardson

All indigenous movements start with firebrands who motivate people to political action. Etok, or Charlie Edwardson, was just such a person, comparable to Bolivia's Felipe Quispe today. It was Etok's testimony in the U.S. Senate, delivered with a stammer he had from childhood that galvanized the federal government into passing the settlement act in 1971. And there was the late Eben Hopson, an Eskimo wise man, who possessed enormous diplomatic skills. Hopson helped create the North Slope Borough – a local government run by Eskimos – to pass a local property tax on the oil pipeline and get both the oil companies and the state legislature to swallow it. Hopson was elected the first mayor of the NSB, built its infrastructure, and is a hero to his people.

Finally there were the Eskimo entrepreneurs, Jake Adams and Oliver Leavitt, the CEO's of ASRC in its formative decades, who created alliances and business synergies as sophisticated as any seen in modern business practice. Natives have equal shares in their corporations and cannot sell them, so there is no concentration of capital or power, and great sensitivity to shareholder consensus on the business plan.

An adaptation of the Alaska solution to Bolivia is theoretically possible. The differences in history, land title, resources, population and mechanisms for financing indigenous enterprises are substantial. Until Bolivia begins to search for an inclusive solution like Alaska's, its indigenous people will be stuck in poverty, while the indigenous of Alaska have defeated it. Bolivia is at the brink of collapse, while the Eskimos are thinking about how to finance an \$8 billion gas pipeline.

WHY ARE THERE NO RED DOGS IN BOLIVIA?

Dateline: January, 2006

The Red Dog Mine is the richest zinc mine in the world. It is owned by Alaska indigenous people in partnership with a Canadian mining company who together are setting a new standard for environmentally-conscious mining worldwide, while providing millions of dollars to indigenous shareholders.

By contrast, in 1992 Bolivia turned away investors with \$100 million to develop a lithium mine and chemical industry near Potosi that would have produced up to \$43 million in royalties annually for 40 years, with the bulk of it going to Potosi. But the residents of Potosi, distrusting the Bolivian government and mining company Lithco in equal measure, turned down the deal. So the investors went away, and Potosi remains the poorest province of the poorest nation in South America to this day.

Why Alaska's indigenous were prepared to make a development deal, and Bolivia's were not, is the key to why one defeated poverty while the other is still mired in it.

Red Dog Mine

In 1971, the U.S. settlement with Alaska's Natives created 13 regional corporations owned by the indigenous and capitalized by government with land and money. One of these, the NANA Corporation, (Northwest Artic Native Association), is owned by 11,000 Eskimos whose ancestral economy involved caribou, whales, seals and tundra berries, for thousands of years. At the drainage of the Wulik River, the Canadian mining company Cominco (www.teckcominco.com) discovered zinc on lands claimed both by it and NANA. A dispute ensued between the two.

Fearing their traditional way of life would be destroyed by mining, many Eskimo shareholders opposed the development outright. But NANA leaders convinced them that they could control the destiny of the project by entering a corporate partnership with Cominco – “co-owners with shared values and a common goal” as they say today (www.nana.com).

The resulting Red Dog alliance produced \$79 million for NANA shareholders and \$38 million for local indigenous government from 1989 to present. Of the \$45 million in wages paid last year, \$25.5 million went to NANA shareholders -- trained by Cominco as part of the deal -- who make up more than half Red Dog's workforce, halfway to its goal of 100% Native hire. Pitching in, the state government invested \$180 million of revenue bond financing in roads and seaport infrastructure, adding value to Red Dog's global competitiveness.

And in the many creeks that pass through the one-half-mile-square open mining site at Red Dog, environmental precautions actually increased the number of fish in nearby creeks – perhaps a first in mining history -- while roads were carefully carved through the tundra to avoid caribou paths or bird nesting areas. Flex-time and job-sharing were also applied so that Eskimos can engage in traditional hunting and subsistence activities that many wish to sustain.

Last year, NANA Corporation earned \$263 million from mining, oil and gas, hotels, engineering and service businesses. It is a major player at the development table of Alaska. When NANA speaks, industry and government listen. It is all the indigenous hoped for in terms of empowerment and control, and more.



Two Eskimo miners, Sam Hill and Jason Ristman

Potosi

“The treasure of the Spanish Empire” is what Potosi was called, because it had the richest silver mine in the world in Spanish conquest times. Centuries later, it produced most of Bolivia’s famous tin. When the world tin market collapsed in the 1980s, thousands of Potosi miners went jobless and quickly poor. In its hey-day, Potosi was a bustling city. Today it is home to many indigenous people who scrape by on less than \$2 per day.

Potosi’s tin mines are the historical cash-cows of Bolivia’s national government, which controls sub-surface property rights. Historically, Bolivian governments and the mining companies have made development deals and a lot of money, without much trickling down to the indigenous people who comprise over half its population. This was the source of indigenous resentment and rage that turned over a government in 2003 and is stopping gas development in its tracks today, just as it turned down a chemical industry based upon lithium mining in 1992.

At the height of past tin development, the people of Potosi demanded more autonomy so they could control how the revenues from tin were spent, but the poorer provinces said no. Likewise, the people of Tarija, who sit on massive undeveloped gas reserves, and the people of Santa Cruz, who rule Bolivia’s soybean wealth, today seek autonomy from the poorer, indigenous provinces to the west, who are resisting.

Bolivia is sunk deep in a development quagmire born of distrust.

Breakthrough

One can only imagine what might have happened thirteen years ago in Potosi if Bolivia had adopted the inclusive Alaska development model.

If an indigenous-owned lithium mining company had been financed with sufficient property and capital in 1992, would it have gone into a partnership with Lithco and succeeded the way NANA did with Cominco of Canada?

Would the Bolivian government have helped to implement such a win-win deal, or would the country’s infamous Byzantine politics have scuttled it?

Bolivia needs a breakthrough to a common solution that transforms lives from \$2 per day to owning something like the Red Dog Mine.

INDIGENOUS ENTERPRISES CAN BREAK THROUGH ANDEAN DEVELOPMENT LOGJAM

Dateline: January, 2006

In Alaska, indigenous enterprises initially financed by government, spearheaded Alaska development by forging corporate partnerships with oil that produced over \$30 billion in earnings, and helped reduce Native poverty from 67% to 18% in little over one generation. To a lesser extent, indigenous enterprises in Canada have helped do the same.

In Ecuador, Peru and especially in Bolivia, where no such enterprises exist, indigenous rage against continuing poverty has turned violently against national governments and industry alike, stifling development. A comparison of the indigenous situations suggests that such enterprises in the Andeans could break the logjam of distrust that has brought development to a standstill there.

Same Values, Different Tools

The indigenous from north to south have the same values. They want respect, equality, and a piece of the action. They want to be empowered owners and partners with government and industry wherever their interests are at stake.

In Alaska, the indigenous stopped oil development until those values were incorporated into a settlement. In Canada, the indigenous stopped hydroelectric development until the James Bay and Northern Quebec Agreement (www.ainc-inac.gc.ca/) did the same thing. Neither settlement affected existing oil or hydro concessions, contracts or ownership.

Indigenous enterprises such as Alaska's ASRC or NANA, and Canadian James Bay's Makavik Corporation, (www.makivik.org) forged partnerships that added size to the development pie, because they could attract investment from sources unavailable to the private sector or global investors. A similar solution can be structured in the Andeans.

Who Finances It?

Indigenous enterprises were provided land and money in Alaska, the result of a land claims settlement. The capital was provided 50% by petroleum revenues and 50% by appropriation. In the Andeans, land is already distributed and owned, but even so, Andean financing is possible and might be just in time. Of the \$30 billion Alaska Native corporate earnings to date, only 30% derives from land and 70% from money capitalization, so land is not essential to the solution.

Fund sources for Andean indigenous enterprises include direct appropriations by European or North American governments; the corporate finance windows of the World Bank, the Inter-American Development Bank, or the Andean Development Corporation; and in Bolivia's case, the U.N. Millennium Fund, for which it is a qualified recipient. Domestic sources include a government investment of a piece of the net present value of future national assets such as gas production securitized by banks; direct appropriation to a legislatively created Indigenous Enterprise Permanent Fund; or contributions by philanthropy.

If the Andean indigenous enterprises engaged alliances with Alaska Native corporations, they could qualify for preferential U.S. government procurement contracts – a major source of Native corporate income. The Alaska Native corporations could also invest directly in Andean businesses and attract global partners to the Andeans as they have to Alaska.

Through these fund and finance sources, some \$1 billion for indigenous enterprise finance for each of Bolivia, Ecuador and Peru appears feasible to assemble. In Bolivia, a \$1 billion investment would add 10% to gross domestic product. Corporate earnings could be expected to exceed that in following years.

The promise of immediate enterprise financing and future earnings, jobs and dividends would offer indigenous people hope, a scarce commodity in the Andeans today. Alaskan and Canadian resistance to development disappeared when a just settlement with the indigenous came into sight – that could happen in the Andeans, too.

There Is No Alternative

Indigenous enterprises are the missing link to maximizing the development of gas in Bolivia, oil in Ecuador, mining in Peru, and export and tourism industries everywhere: enterprises. Without them, indigenous protests have no reason to abate, and their efforts to overturn governments, or industry concessions, will likely accelerate -- as they are in Bolivia. With them, indigenous people will have a vested interest in coming to the table to negotiate.

The enterprises do not destroy culture but support it. In Alaska and Canada, the indigenous applied their long-held values of collectivism and sovereignty inwardly to their own enterprises. Without the hopes raised by enterprise, those values are leading to conflict, disinvestment, failed states – and more indigenous poverty.

The political will to create this opportunity for the indigenous – which the shareholders of every large corporation can appreciate for themselves – is difficult to achieve. But as Britain’s Prime Minister Margaret Thatcher said in another context, “There is no alternative.”

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To learn more about Alaska’s indigenous enterprises, visit:

Arctic Slope Regional Corporation: www.asrc.com

The North Slope Borough: www.north-slope.org/

The Alaska Federation of Natives: www.nativefederation.org/

The Village Corporation of Nuiqsut: www.kuukpik.com

Villano, Ecuador and Nuiqsut, Alaska Community Study: www.iser.uaa.alaska.edu/iser/people/Sharman/Ecuador_AK%20Oil.pdf

Cook Inlet Region Inc. (a regional corporation): www.ciri.com/news/media

The Northwest Area Native Association (a regional corporation): www.nana.com

Teck (NANA partner and operator of The Red Dog Mine): www.teckcominco.com

The Alaska Permanent Fund: www.apfc.org

The Alyeska Pipeline Company: www.alyeska-pipe.com

Goldbelt (a village corporation): www.goldbelt.com

Bristol Bay Native Corporation (a regional corporation): www.bbnc.net

Indian and Northern Affairs Canada (Canadian land claims site): www.ainc-inac.gc.ca/

The Makavik /St. James Bay, Canada Organization: www.makivik.org

