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Proposed Alaska Land Exchanges

Statement of
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Before the
Subcommittee on Water and Power Resources
Committee on Interior and Insular Affairs
House of Representatives

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Dear Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our recently completed work on proposed land exchanges between the Department of the Interior and six groups of Alaskan Native corporations. The Department's comments on a draft of our report, along with our evaluation of them, are presently being incorporated into our final report. The final report will be issued shortly. Our work was based on requests made by you, Mr. Chairman, and the Ranking Minority Member of the Senate Committee on Energy and Natural Resources, that asked us to review Interior's legal authority to conduct the proposed exchanges, as well as their underlying processes, assumptions, and methods.

As the nation's best single opportunity to increase domestic oil production over the next 40 years, the coastal plain in the Arctic National Wildlife Refuge (ANWR) represents a valuable public asset. Similarly, ANWR and Alaska's other wildlife refuges contain valuable wildlife and habitat resources that should be managed for the public good.

The magnitude of the proposed Alaskan land exchanges is without precedent in Interior. Under the exchanges, Interior would acquire about 896,000 acres of Native-owned lands in seven Alaska wildlife refuges. In return, the Native groups would receive oil and gas rights on about 166,000 acres in ANWR. Although Interior appraised the fair market value of the Native-owned lands at $90 million, after taking into consideration their environmental or public interest value, it negotiated a value of $539 million for them. Likewise, Interior has valued the oil and gas interests the Native groups would receive at $539 million.

Based on our review of the applicable laws, we believe that Interior has the legal authority to negotiate and administratively approve the proposed exchanges, but the Native corporations cannot exercise their oil and gas rights acquired under the exchanges unless the Congress opens the coastal plain of ANWR for oil and gas development. Notwithstanding Interior's authority to administratively execute these exchanges, we believe it would not be in the government's best interest to proceed with the exchanges as proposed for the following reasons:

-- About three-fourths of the Native-owned lands the government would acquire would provide only limited additional wildlife and habitat protection benefits.

-- The exchange value of $539 million Interior negotiated for the Native-owned lands is six times their appraised fair market value of $90 million.

-- The values of the oil and gas tracts the corporations would acquire are highly uncertain because they are based on limited data, and the actual value of the tracts may be significantly higher or lower than Interior's estimated values.

-- Generally accepted methods for dealing with uncertainty in lease sales--that is, requiring competitive bidding for the tracts and retaining a continuing monetary interest through a royalty provision in the actual amounts of oil and gas that may be produced--were not employed.

QUESTIONABLE BENEFITS OF LANDS TO BE ACQUIRED

Although some of the lands that the government would acquire under the proposed exchanges have been rated by Interior as very important wildlife habitat, 76 percent would provide limited additional wildlife and habitat protection benefits. About 279,000 acres or 31 percent of all proposed acquisitions were rated by Interior as low priority or unsuitable for acquisition. Another 349,000 acres, or 39 percent, are already protected by law from uses that are inconsistent with wildlife refuge purposes. Finally, about 53,000 acres, or 6 percent, are most threatened by subsurface mineral development, but Interior would not acquire the subsurface rights under the terms of the proposed exchanges.

THE GOVERNMENT WOULD PAY SIX TIMES FAIR MARKET VALUE FOR LAND IT WOULD ACQUIRE

Interior appraised the fair market value of the Native-owned lands in its wildlife refuges at $90 million, but arrived at a negotiated value of $539 million--a six-fold increase. We believe that fair market value is the only appropriate way to value land acquired by the federal government. Thus, we believe it was inappropriate for Interior to negotiate exchange values for the inholdings that exceeded fair market value.

Furthermore, in negotiating the exchange prices, Interior used inappropriate comparisons of prices from previous land transactions. For example, several of the transactions involved lands in other states where land values are generally higher. Of four other transactions (1) one contained timber resources, (2) one was a small prime piece of acreage in a national park, (3) one was based on land values in the greater Anchorage area, and (4) one was based on an estimate that was later appraised at one-quarter of that estimate's value.

VALUES OF OIL AND GAS TRACTS ARE UNCERTAIN

The values of the oil and gas tracts that the Native corporations would acquire under the proposed exchanges are highly uncertain because they were based on limited geologic information and uncertain economic data.

In terms of geologic data, Interior's evaluation relied heavily on seismic information that it had obtained for the overall assessment of ANWR's oil potential. These widely spaced seismic data, while useful in conducting the broad-scale assessment of ANWR's potential, were, in our opinion, inadequate to establish individual tract values with certainty. Data from wells may provide valuable information for estimating the oil-bearing potential of underground rocks, but no such data were available from within ANWR. An oil company affiliate of one Native corporation drilled one well in ANWR, but Interior did not have access to data from that well.

Uncertain economic data, such as future oil prices, compounded the uncertainty in the tract values. The net effect of the geologic and economic uncertainties is that the proposed exchange value of $539 million for the oil and gas tracts may substantially over- or underestimate the actual tract values.

GENERALLY ACCEPTED METHODS FOR DEALING WITH UNCERTAINTY NOT EMPLOYED

Uncertainty is inherent in valuing oil and gas prospects. In lease sales, the government generally allows the marketplace to value the tract through competitive bidding and retains a continuing monetary interest in any future oil production through a royalty provision. Under the proposed land exchanges Interior neither required the Native corporations to bid against one another competitively for the tracts nor retained a continuing monetary interest in any future oil production.

Ultimately, the tracts may prove to be worth substantially more or less than Interior's estimated values, because, while ANWR has been rated as the nation's best single opportunity to increase domestic oil production, it may also contain no economically recoverable resources.

Given this situation, we believe that if the Congress decides to open ANWR for oil and gas development, it would be more prudent for Interior to do so under its usual oil and gas leasing program where the marketplace sets the values of the tracts and the government shares in both the risks and benefits of the actual resources that are ultimately produced.

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In summary, because of the questionable benefits of and relatively high values negotiated for the lands the government would receive; the uncertainty of the value of the lands the Native corporations would receive; and the absence of generally accepted methods for dealing with that uncertainty, we believe that the land exchanges as proposed are not in the best interest of the government, and that further consideration of them should be discontinued.

In commenting on our draft report on the exchanges, Interior disagreed with many aspects of the report as well as our recommendation that further consideration of the exchanges as proposed be discontinued. As I stated earlier, we are now incorporating the Department's comments into our final report. Based on our evaluation of the comments, however, we see no change in the report's basic position that because of their extensive shortcomings, any further consideration of the exchanges as proposed is not warranted.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or members of the Subcommittee may have.