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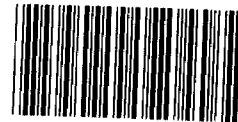
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MINERAL RESOURCES

Meeting Federal Needs
for Helium

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today for the Subcommittee's oversight hearing on the Helium Act of 1960. My remarks will be based on our October 30, 1992, report on meeting federal needs for helium.¹

In summary, Mr. Chairman, our work has shown three things. First, the Department of the Interior's Bureau of Mines has acted to meet the act's objectives. Second, the helium program debt, which overshadows meaningful debate on the merits of the program, could be canceled without adversely affecting the federal budget. And third, a reassessment of the objectives of the helium act is needed. Before discussing the results of our work in more detail, I would like to provide some background on the helium program.

BACKGROUND

Helium is an element that occurs naturally in gaseous form. It is recovered from certain natural gas fields, and in the United States most of those fields are located in Kansas, Oklahoma, Texas, and Wyoming. Helium is separated from natural gas and stored in a concentrated form--referred to as crude helium--until it goes through the final refining process. The federal government uses helium, in among other things, the space program, weapons systems, and superconductivity research. For example, helium is used to purge the fuel tanks and lines of the space shuttle.

The Helium Act of 1960 was passed in response to growing federal needs for helium, especially for the space program, and concern that the nation's helium reserves were being rapidly depleted as helium was vented into the atmosphere by natural gas producers. The 1960 act authorizes Interior to conserve, buy, store, produce, and sell helium to meet federal and other needs. In addition, the act requires that federal agencies purchase their major requirements for helium from the Bureau of Mines. The objectives of the act are to (1) conserve helium for future use, (2) provide a sustained supply of helium sufficient for essential government activities, and (3) foster and encourage individual enterprise in the development and distribution of helium.

In 1991, U.S. refined helium production was about 3.1 billion cubic feet, of which the Bureau supplied about 350 million cubic feet (about 11 percent). The Bureau's helium production and storage facilities are located near Amarillo, Texas. The remaining 89 percent of refined helium was produced by the private helium industry that has developed since 1960.

¹Mineral Resources: Meeting Federal Needs for Helium (GAO/RCED-93-1, Oct. 30, 1992).

BUREAU OF MINES HAS ACTED TO MEET
THE ACT'S OBJECTIVES

The Bureau has acted to meet the objectives of the 1960 act. First, to conserve helium, the Bureau purchased, produced, and stored helium that would otherwise have been vented into the atmosphere during natural gas production. When the Bureau ceased helium purchases in 1973, the Secretary of the Interior determined that the federal helium inventory would meet federal needs for at least 30 years. As of September 30, 1992, the Bureau estimated that, at the current rate of use, the 32.3 billion cubic feet of helium remaining in storage would last until at least 2070. Second, to provide helium for essential government activities, the Bureau has satisfied federal needs for helium. Finally, to foster and encourage individual enterprise in helium, the Bureau's helium purchases and other actions encouraged crude helium production and the development of a private helium-refining industry.

FEDERAL BUDGET NOT ADVERSELY
AFFECTED BY BUREAU HELIUM PROGRAM DEBT

Now I would like to discuss the helium program debt, which we believe overshadows meaningful debate on how to meet federal needs for helium. There have been suggestions that the helium program should be abolished because it has incurred a \$1.3 billion debt that is costly to the taxpayers. However, this is not the case because the helium program debt has no adverse effect on the federal budget.

The 1960 act required that the program's net capital and retained earnings, valued at about \$40 million, plus subsequent program borrowing from the U.S. Treasury, which totaled about \$252 million, be established as debt in the Helium Fund. This fund is used to account for the program's revenues and expenses. The act required that this debt, plus interest, be repaid to the U.S. Treasury by 1995 from helium sales revenues. Since 1960, the debt in the Helium Fund has grown to about \$1.3 billion, of which more than \$1 billion is interest that had been accruing at a rate of over \$100 million a year as of fiscal year 1991.

However, none of this debt represents current outlays by the federal government. The \$40 million for net capital and retained earnings was a valuation of the program's assets in 1960. It represents the value of appropriations that were recorded in the federal budget since 1925 to meet federal needs for helium at a time when there was no private helium industry. The \$252 million was used in the 1960s and 1970s to purchase and store helium to achieve the act's conservation objective. These appropriations were also recorded in the federal budget as outlays in the years in which the funds were expended. Finally, the \$1 billion in interest is not, nor has it ever been, an outlay by the federal government.

Rather, it is merely a paper transaction that has no effect on the federal budget or on taxpayers.

Purchasing such a large inventory of raw material and covering that cost, plus interest, with revenues from routine operations is not normal business practice. However, the Bureau could have, and still can, cover these costs and repay the program debt by 1995 by charging federal agencies with major requirements for helium a high enough price. Those agencies, by law, would have no choice but to pay the higher price if they continue to purchase helium. This would not adversely affect the overall federal budget because increased agency appropriations would offset increased Bureau revenues, making it a "wash transaction."

We believe that a simpler alternative for eliminating the helium program's debt, which we recommended in our 1992 report, would be to cancel it. Eliminating the debt would allow the Bureau's helium program to be evaluated in terms of meeting its actual operating expenses. However, continuation of the program with its debt cancelled could undercut private refined helium prices and adversely affect the private helium-refining industry unless further actions are taken. One alternative would be to eliminate competition between the Bureau and the private helium-refining industry by requiring that the Bureau meet all federal needs but be prohibited from selling to nonfederal customers.

A REASSESSMENT OF THE OBJECTIVES OF THE HELIUM ACT IS NEEDED

We believe that in addition to deciding what to do about the helium program debt, the Congress should reassess the act's objectives in light of changes that have occurred since the act was passed in 1960. However, any revisions to the act should be carefully evaluated because the act's objectives are interrelated. A change to one objective could affect another, and any changes may affect the federal budget and the total cost of supplying helium to the U.S. economy.

In 1960, the Bureau was the sole producer of refined helium, but now a private helium industry supplies almost 90 percent of refined U.S. helium and could meet federal needs for helium if there were no Bureau program. Also, in 1960 there was concern that helium conservation was necessary to ensure that federal needs could be met, but now the Bureau has enough helium in storage to meet federal needs until at least 2070.

However, before changing the act to address changes that have occurred, consideration must be given to the interrelationship of the act's objectives. For example, a decision about increasing, holding, using, or selling the federal helium inventory will affect the federal budget and the private helium industry differently. A decision to sell the federal helium inventory would generate

revenues for the federal government, but the sale would probably drive the private crude helium industry out of business. On the other hand, holding the federally owned helium inventory incurs an opportunity cost of foregoing revenues to the federal government. If holding the inventory occurs at the same time that federal purchases of helium are shifted from the Bureau to private industry, the total cost of supplying helium to the U.S. economy increases because of the need for new private investment in helium production capacity.

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In summary, Mr. Chairman, how to meet federal needs for helium is a public policy decision that should consider many issues. We believe that the Congress should reassess the objectives of the Helium Act of 1960 in order to decide how to meet federal needs for helium. Such a decision should consider not only the effects of changes that have occurred since the act was passed in 1960 but also the interrelationship of the act's objectives and the effect on the federal budget and the total cost of supplying helium to the U.S. economy. We believe, however, that the debate should not focus on the debt associated with the helium program because it does not adversely affect the federal budget and should be canceled.

Mr. Chairman, this concludes my statement. We will be happy to answer any questions that you or other Members of the Subcommittee may have.

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