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Permitting, Economic Value and Mining In the United States

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I would like to start by thanking the Committee for inviting me to speak here today.

SNL Metals & Mining is a subsidiary of SNL Financial, a U.S.-based data, news and consulting business focused on the financial, real estate, media, energy and mining sectors.

In early 2015 the National Mining Association commissioned SNL Metals and Mining to carry out a study aiming to quantify the impact of permitting delays on the economic value of mining projects. We embarked upon this assignment in the hope of creating a piece of unique research, which would demonstrate empirically the destruction of value which results from unnecessary, extended delays to project development.

What we found is that on average, a typical mining project loses over one-third of its economic value as a result of protracted delays in receiving the numerous permits needed to begin production. The longer the wait, the more the value of the investment is eroded, even to the extent that the project ultimately becomes an unviable investment. Even a large high-grade deposit will remain unmined if the balance between costs, revenue and timetable are not favorable.

This inefficient permitting system has partially blocked the pipeline along which projects advance to become productive mines. We found that although mining companies continue to invest in exploration, an ever-greater proportion of projects is stuck in the earlier phases of development, despite evidence that a healthy mining sector is an important component of the economy. This has left the U.S. dependent on active mines whose remaining life is declining or on mineral resources from abroad.

It takes on average seven to 10 years to secure the permits needed to commence operations in the United States. To put that into perspective, in Canada and Australia, countries with similarly stringent environmental regulations, the average permitting period is two years. In the United States, the requirement for multiple permits and multiple agency involvement is the norm, as is the involvement of other stakeholders, including local indigenous groups, the general public and nongovernmental organizations. In Canada and Australia the timeline for the government to respond is more clearly outlined, the specification of lead agencies is clearer, and the responsibility for preparing a stringent environmental review lies with the mining company, not the government.

Our study examines several real-world examples of mines where delays have eroded value.

The Rosemont Copper project in Arizona continues in its attempts to secure permits, five years after the originally planned start date of 2010. Over this period the value of the project has fallen from $18 billion to $15 billion despite much higher copper prices.

The Kensington gold mine in Alaska was plagued by permitting issues during development. It commenced production in 2010, nearly 20 years after the originally planned start date of 1993. By the time the mine opened, the capital cost of building the mine had increased by 49 percent, and the company had reduced planned gold production by nearly one-third, to focus mining operations on the most profitable part of the deposit only.

Earlier research conducted by SNL in 2014 established why a healthy mining sector is important for the U.S. economy: There is a mismatch between mineral supply and demand in the U.S.; it ranks as only the seventh largest mining nation, although it is the world's largest manufacturer. Another key finding of our previous research was that manufacturing activity is returning to the U.S., driven by manufacturers' desire to reduce the risks in their supply chains and consumers' increasing concerns regarding corporate accountability. Consumers want to see evidence of sustainable production processes, use of recycled materials and sound environmental practices.

Our third key conclusion was that relative to their global peers, U.S. miners are highly efficient, often exemplifying best practices with regard to productivity, sustainability and safety. The U.S. remains highly prospective, from a geological point of view, with abundant, diverse mineral resources of high quality. A duplicative, inefficient permitting system presents a significant barrier to American companies' access to minerals.