Laura Skaer
Executive Director
Northwest Mining Association

Testimony on *Effect of the President's FY-2012 Budget and Legislative Proposals for the Bureau of Land Management and the U.S. Forest Service's Energy and Minerals Programs on Private Sector Job Creation, Domestic Energy and Minerals Production and Deficit Reduction.*

April 5, 2011

Executive Summary

Chairman Lamborn, Ranking Member Holt and Members of the Committee, the Northwest Mining Association (NWMA) appreciates this opportunity to provide testimony on the *Effect of the President's FY-2012 Budget and Legislative Proposals for the Bureau of Land Management and the U.S. Forest Service's Energy and Minerals Programs on Private Sector Job Creation, Domestic Energy and Minerals Production and Deficit Reduction.*

At a time when Members of Congress, the Administration, the media and the public are acknowledging that the United States has become increasingly vulnerable and dependant on foreign sources of strategic and critical minerals, the Administration's budget and legislative priorities not only fail to address this serious issue, they actually compound the problem. As you know, this vulnerability has serious national defense and economic consequences. This increased vulnerability and reliance on foreign sources of minerals is not new to NWMA or the mining industry, as we have been delivering that message for the past ten years.

While Members on both sides of the aisle are beginning to introduce legislation to address these mineral vulnerability issues, the Administration's budget ignores this reality by proposing increased fees and royalties; advocating policies that make access to mineral lands and permits more and more difficult; fails to address serious workforce issues in both the Bureau of Land Management (BLM) and the U.S. Forest Service (USFS); and basically ignores Congressional mandates to manage public and National Forest Lands for multiple-use, sustained yield and the production of fiber, food, minerals and energy the Nation requires.

The *Federal Land Policy and Management Act* of 1966 (FLPMA) 43 U.S.C. 17.01 *et seq* lists twelve policies with respect to the public lands of the United States. Section 102(a)(12) states that it is the policy of the United States that:

> the public lands be managed in a manner which recognizes the Nation's need for domestic sources of minerals, food, timber and fiber from the public lands including implementation of the *Mining and Minerals Policy Act* of 1970 (30 U.S.C. 21a) as it pertains to the public lands;

The *Mining and Minerals Policy Act* of 1970 declares, in part:

> [t]hat it is the continuing policy of the Federal Government in the national interest to foster and encourage private enterprise in (1) the development of economically sound and stable domestic mining, minerals, metal and mineral reclamation industries, ….

The *Multiple-Use and Sustained Yield Act* of 1960 (16 U.S.C. 528) *and the National Forest Management Act* of 1976 contain similar policy declarations for the USFS.

It is within the context of these statutes and congressional declaration of policy that NWMA finds the Administration's budget proposals relating to private sector job creation, domestic minerals and energy production, and deficit reduction woefully lacking. Instead of allocating budgetary resources to wealth and job creating mineral and energy resource programs, and providing incentives and required certainty to attract mineral investment, the Administration's budget and legislative proposals focus on protection, removing lands from productive use, increasing royalties, fees, and taxes, increasing uncertainty and regulatory burdens and implementing controversial and job killing policies revolving around climate change. While the Administration talks the job creation talk, their proposals clearly do not walk the job creation walk.

The Administration's job killing budget and legislative proposals include increased fees and a gross royalty/leasing system for seven hardrock minerals that will discourage exploration, development and production of those metals on public lands and increase our Nation's dangerous reliance on foreign sources of minerals as well as energy. The President's FY-2012 budget also fails to address project delays caused by bureaucratic red tape, a broken NEPA process and a failure to address workforce issues.

Finally, if the Administration was truly interested in reducing the environmental impact of abandoned hardrock mines, it would have included Good Samaritan legislation similar to H.R. 3203 introduced by Chairman Lamborn in the 111th Congress.

Northwest Mining Association: Who We Are

NWMA is a 116 year old, 2,000 member, non-profit, non-partisan trade association based in Spokane, Washington. NWMA members reside in 42 states and are actively involved in exploration and mining operations on public and private lands, especially in the West. Our diverse membership includes every facet of the mining industry including geology, exploration, mining, engineering, equipment manufacturing, technical services, and sales of equipment and supplies. NWMA's broad membership represents a true cross-section of the American mining community from small miners and exploration geologists to both junior and large mining companies. More than 90% of our members are small businesses or work for small businesses. Most of our members are individual citizens.

Bureau of Land Management Budget and Legislative Proposals

Our testimony will focus on the budget and legislative proposals impacting the hardrock mining industry, namely the proposed gross royalty and leasing system for seven locatable minerals, the abandoned mine land fee for hardrock minerals, regulatory proposals, such as Secretarial Order 3310 and the proposed Northern Arizona withdrawal, the failure to address delays in the NEPA/permitting process and replacing and training new professionals to replace an aging workforce. Instead of focusing on enhancing the programs that create jobs, lessen America's reliance on foreign sources of minerals and promote the production of the minerals, food, timber and fiber Americans require, the Department has elevated protection as its budgetary and legislative priority.

A. Proposed Leasing/Gross Royalty System for Seven Hardrock Minerals

The President's FY-2012 budget includes a legislative proposal to institute a leasing process under the *Minerals Leasing Act* of 1920 for seven hardrock minerals – gold, silver, lead, zinc, copper, uranium and molybdenum. These seven minerals currently are subject to location under the General Mining Laws of the United States. The President's proposal would include a new leasing process and subject these seven minerals to annual rental payments and a royalty of not less than 5% of gross proceeds. One half of the royalty proceeds would be distributed to the states and the other half would be deposited in the General Treasury. Existing mining claims would be exempt from the leasing system but would be subject to increases in annual claim maintenance fees.

This proposal would have the effect of killing private sector job creation and discouraging private investment in the exploration, development and production of domestic mineral resources. It would increase our nation's reliance on foreign sources of minerals and lower the United States' standing among the twenty-five largest mineral producing countries in the world.

The leasing proposal will increase uncertainty by failing to recognize that unlike coal and oil and natural gas, which are typically located in vast sedimentary basins, economically viable deposits of the seven minerals mentioned in the President's proposal are rare and hard to find. Discovery, delineation and development of metallic ore bodies require years of fact-finding, including ground, aerial and satellite reconnaissance, exploration drilling, environmental baseline gathering, workforce hiring and training, mine and mill planning, design and construction and closure and reclamation.

In a 1999 report, the National Research Council of the National Academy of Sciences recognized just how rare economically viable mineral deposits are: "Only a very small portion of Earth's continental crust (less than 0.01%) contains economically viable mineral deposits. Thus, mines can only be located in those few places where economically viable deposits were formed and discovered." *Hardrock Mining on Federal Lands,* National Research Council, National Academy Press, 1999, p. 2-3.

On page 24 of the same report, the National Research Council Committee included a sidebar on "How Hard is it to Find a Mineral Deposit?" This is what the NRC Committee had to say:

> The art and science of finding new mineral deposits is much better than pure luck, but it is still far from perfect. Moreover, the search for new mineral deposits is costly, time consuming, and without guarantee of success. For example, Roscoe (1971) showed that the number of mineral indications in Canada that had to be investigated to discover a significant mineral deposit was about 100 in 1951 and rose to about 1,000 in 1969. There is no reason to expect that this trend has changed. Similarly, in a probabilistic analysis of exploration experience in the United States by Homestake Mining Company, Anderson (1982) concluded that from an initial sample of 1,000 reconnaissance examinations (more or less equivalent to casual use activities), 100 drillable exploration targets (roughly equivalent to notice-level activities) would emerge in which there would be a 75% chance of finding one deposit with 3 million ounces of gold. The statistics may not be quite as grim as they first appear, because there are many cases of someone with a better concept, more persistence, or luck finding an economic deposit in a prospect or worked-out mine that several companies have deemed worthless. Successful projects can be spectacularly profitable, but overall, mining has one of the lowest returns on investment of major industries (Dobra, 1977).

It is not uncommon for mining companies to spend millions of dollars just to identify 100 drillable exploration targets. Sometimes more than $100 million can be expended before a decision is made to build a mine. At a recent mining conference in Denver, the chief financial officer of a large gold company told the audience that his company was initially surprised when it spent $2 billion dollars to explore for, develop and build a mine but they now consider that to be a common figure. Bear in mind that all of this investment occurs up front *before* production and the beginning of cash flow. Furthermore, the combination of cyclical price volatility and the variations in the concentration and geologic characteristics of these seven metals within a single ore body can turn ore with economic value into waste rock at a sudden downturn in the market.

These are among many reasons that these metals were not removed from the operation of the Mining Law when the *Mineral Leasing Ac*t was passed in 1920. Congress recognized then, as it should today, that in order to encourage private enterprise in the development of hardrock minerals, there must be an incentive for those who take substantial risk to explore for, find and develop a mineral deposit. The Mining Law has served this Nation well for 139 years by providing a self-executing process to enter upon federal lands open to mineral entry to explore for, find, use and occupy those lands for all uses reasonably incident to prospecting, exploration, processing and mining. The Mining Law has provided the necessary framework and security of tenure or certainty required to attract mineral investment and take the risk to find that true needle-in-a-haystack, one-in-ten thousand economically viable mineral deposit.

Removing these seven minerals from the operation of the Mining Law and placing them in a leasing system will result in less mineral investment in the U.S. and exacerbate our dangerous reliance on foreign sources of critical and necessary minerals.

The President's proposal came as a surprise because it is inconsistent with Secretary Salazar's testimony before the Senate Energy and Natural Resources Committee on July 14, 2009. While supporting a need to amend the *Mining Law of 1872*, including patent reform and providing a fair return to the taxpayers for the extraction of valuable resources and the creation of an AML Fund that included a Good Samaritan provision, the Secretary never suggested a leasing program. In fact, neither Congressman Rahall's Mining Law Reform bill introduced in the 110^{th} (H.R. 2262) and 111^{th} (H.R. 699) Congress nor Senator Bingaman's bill (S. 796) introduced in the 111^{th} Congress contained a leasing system for hardrock minerals. Both Representative Rahall and Senator Bingaman's legislation recognized the importance of the self-initiation rights under the Mining Law to encourage the search for and production of hardrock minerals.

B. A Gross Royalty Not Less Than 5% Will Adversely Impact Investment in Domestic Mining.

A royalty assessed on gross proceeds increases the economic risk of a given mining project investment and acts as a disincentive to investment. This disincentive becomes pronounced when one considers the cyclical nature of commodity prices. In other words, as commodity prices decrease, the rate of return required to justify a mining investment increases. A gross royalty becomes a fixed cost that, in times of low commodity prices, can mean the difference between a mine closing prematurely, resulting in lost jobs, and a mine continuing to operate because it can cover its fixed costs thereby keeping people employed during times of low prices. In other words, a gross royalty raises the "cut off grade" between recoverable ore and waste rock. The life of a mine is shortened by causing what otherwise would be valuable minerals below the cut off point to be lost. A gross royalty prevents conservation of the resource and is not an environmentally sustainable policy. Early mine closures waste public minerals by leaving minerals in the ground. Premature closures of mines means more mineral deposits have to be discovered, more mines built, impacting more land.

Unlike oil, natural gas and coal which are generally marketable as found in place in the ground, hardrock minerals require extensive and costly processing and beneficiation to produce a marketable product. A gross royalty does not consider these costs. A gross royalty is punitive in periods of low commodity prices. During periods of low commodity prices, a mining company would continue to have to pay the gross royalty even if it meant operating at a loss. Since no mine can be operated at a loss for any significant amount of time, the result is that some mines will shut down prematurely creating loss of jobs; loss of federal, state and local taxes; and indirectly adversely impacting suppliers of goods and services to the mine and the mine employees. The economic devastation from a gross royalty would be significant, especially in the rural West where most hardrock mines are located and mining provides some of the best jobs available, jobs that average more than $75,000 per year.

On the other hand, a net royalty does not cause a mining company to operate at a loss. With a net royalty, operators pay higher royalties when their net is high during periods of robust mineral prices and/or operating costs are lower. When mineral prices are depressed, and/or operating costs are higher, operators pay lower royalties, so the royalty does not cause premature mine closures resulting in job losses. Because mineral prices are cyclical in nature, there have been and always will be periods of lower commodity prices. A net royalty provides the best incentive to explore for minerals on federal lands, regardless of the economic cycle. A net royalty promotes conservation of the resource, ensures a longer royalty stream from operating mines, and promotes job retention.

The Metals Economics Group produces an annual report "World Exploration Trends" which tracks global exploration and industry trends. The 2011 report estimates that nonferrous exploration budgets for 2010 will total $12.1 billion. Despite significant mineral resources, the United States attracts only 8% of total world-wide exploration dollars, while Latin America attracts 27%, Canada 19%, Africa 13%, and Australia 12%. The following report provides insight into why the U.S. lags in attracting job creating exploration dollars.

An internationally respected minerals industry advisory firm, Behre Dolbear,prepares an annual report ranking the twenty-five largest mineral producing countries in the world. The latest report is entitled 2011 Ranking of Countries for Mining Investment -- Where "*Not to Invest*" and is attached and incorporated by reference. Behre Dolbear considers seven criteria in ranking countries:

- The country's economic system
- The country's political system
- The degree of social issues affecting mining in the country
- Delays in receiving permits due to bureaucratic and other delays
- The degree of corruption prevalent in the country
- The stability of the country's currency
- The country's tax regime

While the United States ranks high (eight or above on a one to ten scale) for its economic and political system, the United States received a ranking of three with respect to social issues affecting mining; ranked last in delays and receiving permits (the only country to receive a one on the one to ten scale); and a rating of three with respect to its tax regime. Behre Dolbear considers the total taxes applicable to a mining project, including income taxes, severance and excise taxes, duties and imposts, and royalties. The reason the United States received a three is that its "corporate tax rate is 35% plus, which, when combined with state levies effectively makes it the highest corporate tax rate in the world." This high corporate tax rate provides a significant disincentive for mineral investment in the United States. A gross royalty would only exacerbate this disincentive, and any net royalty must take into consideration the overall government take." According to the study, when the "government take" from combined taxes and royalty reaches 50%, a mining project's economic viability is threatened.

In addition, the Administration doesn't seem to understand that our lifestyle and standard of living is made possible by mining. Furthermore, it doesn't understand that the production of solar, wind and geothermal electricity capacity requires minerals. The Administration proposes key funding increases for renewable energy development while proposing new fees and taxes on mineral production, proposing a new leasing system and enacting policies that will adversely impact the security of tenure necessary to attract mineral investment, and failing to address significant workforce issues in the Mining Law program. The bottom line is that all energy production, including renewable energy requires minerals, and lots of them. And they need American minerals – unless, of course, we are willing to trade our unhealthy dependence on foreign oil for a dangerous dependence on foreign sources of critical minerals. In 1995, the United States Geological Survey reported that the United States was import reliant on 43 nonfuel minerals with a $51 billion value. In 2010, the U.S. had become import reliant on 63 minerals and 100% reliant on 19 minerals with a value of $90.4 billion. Unfortunately, the President's budget and legislative proposals will discourage mineral production in the United States and further increase our Nation's reliance on foreign sources of minerals.

C. Abandoned Mine Land Fee

The President's FY-2012 budget proposes to levy an undetermined fee on the production of hardrock minerals beginning January 1, 2012 with the receipts distributed through a competitive grant program. The President's AML proposal of a fee based on the volume of material displaced is significantly different than any AML fee proposed in the past either through Mining Law Reform bills introduced in the last two Congresses or the Secretary's testimony in July, 2009. What is noticeably absent from the President's proposal is a Good Samaritan provision.

A Good Samaritan law, similar to the one introduced by Chairman Lamborn in the last Congress (H.R. 3203), will do more to bring about the cleanup and reclamation of abandoned hardrock mines than any fee imposed on production or material moved.

It appears the President's proposal is based on the coal AML program administered by the Office of Surface Mining (OSM). As was discussed in more detail earlier in this testimony, increasing fees on hardrock production is counterproductive to private sector job creation, domestic energy and minerals production and deficit reduction. Because most currently producing mines are located in the same mining districts as most abandoned hardrock mines, a Good Samaritan provision would enable mining companies to utilize current permitted processing and tailings facilities, equipment and mine personnel to reclaim nearby abandoned mines without the legal risk of incurring cradle to grave liability under the *Clean Water Act* (CWA) and the *Comprehensive Environmental Response, Compensation and Liability Act (*CERCLA).

On October 2, 2007 at a legislative hearing on H.R. 2262 entitled *Royalties and Abandoned Mine Reclamation*, I provided testimony on hardrock AML issues including the need for Good Samaritan legislation. As I stated at that time, the mining industry supports the creation of a new federal AML fund to be financed from royalties owing under any Mining Law legislation enacted by the Congress to augment the monies available to state AML Funds to address safety and, where needed, environmental hazards at AML sites. Our industry also strongly supports the enactment of comprehensive Good Samaritan legislation like H.R. 3203, which would allow mining companies with no previous involvement at an AML site to voluntarily remediate and reclaim that site in whole or in part without the threat of potential enormous liability under the CWA, CERCLA and other federal and state environmental laws. I have attached a copy of that testimony for the record of this hearing and incorporate it by reference.

Rather than imposing a new AML fee on the production of hardrock minerals for reclaiming abandoned mine sites, Congress should first pass Good Samaritan legislation and use, in addition to state AML funds, monies collected from existing claims maintenance and location fees that are not used to administer the General Mining Laws or provide for mineral program workforce hiring and training as discussed below. Over the past five years, the amount of claim maintenance and location fees collected has exceeded the amount allocated by the Secretary of the Interior for administration of the General Mining Laws by more than $20 million per year. We submit that this would be a much better use of those excess funds than depositing them into the General Treasury.

Addressing Permit Delays and Workforce Training

The hardrock mining location and claim fees have brought in between $51.5 and $67.3 million over the last five years. These monies are earmarked for administering the Mining Law Program, yet, over the same time period, only $32.7 to $36.7 million have been appropriated to run the program. The balance has gone to the Treasury.

During this same time period, Mining Law/Minerals Program managers and BLM/USFS field personnel responsible for the locatable minerals programs have been retiring at an unprecedented rate. Within the next five years, more than 60% of BLM and USFS employees responsible for the respective locatable minerals programs will retire or be eligible for retirement. Yet, there appears to be no effort at the departmental level to address this issue. The President’s FY-2012 budget certainly doesn’t address it.

The 2011 Behre Dolbear report ranking countries for mining investment ranked the United States dead last in delays and receiving permits due to bureaucratic and other delays, and near the bottom with a rating of three out of ten on the degree of social issues affecting mining in the country. Here is what Behre Dolbear had to say about social issues in the United States:

> The United States’ rating remained at three. Mining projects in the United States (especially those proposed on public lands) continue to be fiercely opposed. The 2010 mid-term Congressional elections refuted the Democratic Party’s singular control of the government, which may give the mining industry breathing room from the onslaught of unchecked regulatory initiatives that have reduced its cost competitiveness. Unable to achieve its goals through legislation, the Obama Administration has turned to regulation through the Environmental Protection Agency (EPA) and other agencies.

With respect to permitting delays, Behre Dolbear ranked the United States worst among the twenty-five countries rated stating:

> Permitting delays in the United States are the most significant risks to mining projects. A few mining friendly states (Nevada, Utah, Kentucky, West Virginia, and Arizona) are an exception to this rule but are negatively impacted by federal rules that they are bound to enforce. The United States is ranked lowest at a one

due to the average 7-to 10-year period required before mine development can begin.

The delays are not due to environmental regulations being stronger in the United States than in other countries because most countries have environmental regulations equal, at a minimum, to the standards established by the World Bank Group. Rather, it is abuse of the NEPA process, unnecessary bureaucratic red tape and the fact that virtually every mining project is litigated.

Attached as Table 1 is a list of hardrock mining projects in Nevada that have been through the NEPA process to obtain plan of operation approval from the BLM. I have highlighted the length of time it has taken to complete the process and obtain a plan of operation. This chart is evidence supporting the United States' current ranking of last among 25 mineral producing countries in the world with respect to the time it takes to process plans of operations and obtain necessary permits (Behre Dolbear Group Inc., 2011 Ranking of Countries for Mining Investment -- Where *"Not to Invest*") These delays represent jobs that are not being created, jobs by an industry that pays an average wage of $75,000 and has an indirect job multiplier equal to twice the national average.

Most of these projects do not reflect the substantial delays resulting from a BLM Instruction Memorandum issued on December 23, 2009 (IM 2010-043) requiring *all* Federal Register Notices be sent to the BLM Washington Office for review and approval prior to publication in the Federal Register. This Instruction Memorandum also implemented a 12 to 14 step review and approval process that is taking approximately four months per Notice, prior to publication. Included are three procedural notices required by NEPA: (1) Notice of Intent to prepare an EIS which starts the public scoping process; (2) Notice of Intent to publish the Draft Environmental Impact Statement; and (3) Notice of Intent to publish the Final Environmental Impact Statement and Record of Decision. Note that all three Notices are purely procedural—nothing substantive.

Contrast the BLM policy with the USFS policy which allows these purely procedural *Federal Register Notices* to be sent directly to the *Federal Register* by the local forest supervisor. This is not to say that the USFS NEPA process does not have its own problems, rather, merely to contrast the USFS' policy with the BLM's policy that is inhibiting job creation by unnecessarily adding up to a year to what is already a very broken, anti-job NEPA process. We can think of no rational reason for the BLM to require these three procedural Notices to each undergo a four month review and approval process in the Washington, D.C. office prior to publication in the Federal Register. It is no wonder the United States ranks last in terms of permitting delays.

As mentioned previously, claim maintenance and location fees are bringing in $20 million a year more than is being appropriated to administer the BLM's locatable minerals program. This is not taxpayer money. This is money from the mining industry, and we believe some of this more than $20 million per year could and should be used to hire and train the necessary professionals to help break the backlog of permit delays and replace an aging workforce. We believe this should be BLM's and the USFS's number one budgetary priority for locatable minerals.

Among all of the programs administered by the BLM and USFS, hardrock mining is the most technically complex, legally complex and capital intensive. Hardrock mineral deposits result from complex geological forces, and, as discussed earlier, are rare and hard to find. The variation in geology among the different metals as well as variations within a metal require specific geologic and engineering knowledge and training.

In addition, BLM and USFS professionals responsible for managing the locatable mineral programs require an understanding of the General Mining Laws of the U.S. and their relationship with other laws and regulations, including environmental laws and regulations. The technical and legal issues are far more complex than other mineral resources like coal, oil and gas. Additionally, hardrock mine development is the most capital intensive activity taking place on federal lands. Hundreds of millions to several billions of dollars of investment is required, up front, before there is any cash flow or return on investment.

These factors demand professionals with specialized education and training in geology and mining engineering, so they understand the complex technical, legal and capital investment issues associated with hardrock mining.

The U.S. Forest Service

While we have focused our testimony on the BLM’s budget proposals, the U.S. Forest Service budget contains many of the same misguided priorities as the BLM, with a focus on protection and climate change rather than production. Based on information compiled by the USFS Minerals and Geology Management staff, the nine largest locatable mineral mines producing on National Forest Lands produce metals worth $1.03 billion, more than all other USFS programs combined. This represents wealth creation, high paying jobs and significant state and local tax revenues. It also supports U.S. manufacturing jobs by helping to ensure a domestic supply of minerals.

As mentioned above, the USFS faces similar workforce issues as the BLM. As of January 25, three-quarters of the USFS’s certified mineral examiners were eligible for retirement. A December 20, 2010 workforce analysis by the USFS shows 61% of USFS employees eligible for or will be eligible for retirement by 2015. Thus, it is likely that within the next three or four years, the USFS will lose over 60% of its mineral management expertise, yet, little is being done to replace this workforce, and the Administration’s proposed budget actually reduces the amount of monies budgeted to manage the mineral wealth of our National Forest System Lands. The budget shows reductions in monies to administer mineral operations, process mineral applications and manage the abandoned mine land program.

In these times of robust mineral prices, we believe the Forest Service should be increasing its budget request for mineral application processing, so it can hire and train the professionals needed to administer the program and process plans of operation.

Conclusion

The U.S. minerals industry operates in a highly competitive global environment. The search for new mineral deposits occurs around the globe. Major mining companies operate internationally and weigh many factors in determining whether the potential return on mineral investment is worth the geologic, economic and political risk.

There can be no question that mining creates new wealth and provides high paying jobs with an indirect job multiplier more than twice the national average. As mining companies weigh the geology/mineral potential, economic and political risk, they will invest in mineral development where they can obtain access to the land; access to regulatory approvals; access to capital; and access to the resources necessary to build and operate the mine such as people, water and energy. While the United States scores high in terms of its economic and political systems, lack of government corruption and currency stability, it ranks last or near the bottom in terms of permitting delays, social issues and tax policy. Thus, in the Behre Dolbear 2011 Ranking of Countries, the United States is sixth behind Australia, Canada, Chile, Brazil and Mexico.

We also are entering a period of resource nationalism where many countries, led by China, are asserting control over natural resources located within their country. Unlike the Arab oil embargo of the early 70's, countries like China are using resource nationalism not to control the market or the market price for a given commodity, but to attract long term manufacturing jobs. Manufacturing require minerals. Manufacturing concerns require a stable and affordable supply of metals and minerals. In a nut shell, resource nationalism says "if you want our minerals, locate your manufacturing facility in our country."

This is most evident and transparent in China with rare earth minerals. China currently controls 97% of global rare earth production. China has announced that it is cutting back on rare earth exports in favor of internal consumption. Rare earths are required not only in wind turbines and hybrid vehicles, but also in dozens of consumer products like flat screen TV's, computer monitors, and energy saving CFL light bulbs. China is telling these manufacturing concerns that they have a choice. They can hope to obtain the rare earths they need in the global market place at the global commodity price, or they can relocate their manufacturing facility in China and be guaranteed a supply of rare earths at a discount. China has been very transparent in this policy because first and foremost they want to create manufacturing jobs.

If the United States is going to compete in this global mineral environment fueled by resource nationalism, it must adopt policies that guarantee access to lands with mineral deposits, must provide a competitive tax regime, and must reduce permitting delays. We should be embarrassed that we rank last among the twenty-five largest mineral producing countries in terms of permitting delays. The fact that a country with a mineral resource base as rich as the United States attracts only 8% of world-wide exploration spending should be a call to action.

Unfortunately, the President's FY-2012 budget and legislative proposals for the BLM's and USFS's energy and mineral programs do not answer this call to action. Instead of advancing policies that will encourage mineral production, job creation and deficit reduction, the

Administration's proposals will result in less domestic energy and minerals production, adversely impact private sector job creation, and increase the United States' dangerous reliance on foreign sources of strategic and critical minerals. This will have a negative impact on our balance of payments and will not contribute to deficit reduction, as we watch other countries reap the benefits of mineral investment and the resulting private sector jobs, both in mineral exploration and development as well as manufacturing.

We urge this Committee and Congress to reject the President's budget and legislative proposals and, instead, enact incentives that will encourage investment and production of America's vast mineral resources to supply the strategic and base metals and materials necessary to create and sustain U.S. manufacturing jobs, a robust economy, and our standard of living.

Thank you for the opportunity to provide testimony on these important issues. I will be happy to answer any questions.