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H.R. 1192 "The Soda Ash Royalty Extension, Job Creation and Export Enhancement Act"

Before the Subcommittee on Energy and Mineral Resources
House Natural Resources Committee

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Mr. Chairman, we thank you for the opportunity to testify on HR 1192, the "Soda Ash Royalty Extension, Job Creation and Export Enhancement Act." I am here today on behalf of the Soda Ash Section of the Industrial Minerals Association – North America. We are pleased to report that soda ash mined and processed on federal lands contributes nearly one billion dollars annually to our balance of trade, twenty million in federal royalties, and some 3,000 direct jobs.

Up until October of 2011 when the BLM raised our royalty from 2% to 6%, our industry was experiencing job growth, and we planned to expand capacity. Enactment of HR 1192 is important to insuring that we remain a strong American employer and exporter in the years ahead. It means we will continue to pay our fair share for the privilege of mining on federal lands, while creating the conditions for positive economic growth that are in all of our best interests.

From the recent experience of the 2006 Soda Ash Royalty Reduction Act, we know that a 2%, as opposed to the recently re-imposed 6% federal royalty rate, can have these positive impacts:

- First it will lead to robust export growth consistent with the President's National Export Initiative (NEI).

- Second, it will lead to expanded domestic manufacturing capacity and jobs growth; and

- Third, it will result in an increase, rather than a decrease in federal royalty revenues by spurring development of the resource.

Mr. Chairman, the 2006 act was enacted by Congress out of a recognition that global economic conditions, specifically the emergence of stiff Chinese competition, was eroding America's natural soda ash advantage. We need to continue the positive trajectory that Act created for this important domestic manufacturing sector by enacting H.R. 1192.

Indeed our continued competitiveness in world markets is far from certain. This reality was well recognized by Congress in 2006 when it enacted the Soda Ash Royalty Relief Act which reestablished a two percent royalty on every ton of soda ash produced. In October 2011, the BLM saw fit to raise the rate to 6%. We believe this rate increase is not only counterproductive to increasing federal revenues from soda ash production, but threatens our industry's export and jobs growth.

Let me briefly revisit the global economic conditions that caused Congress to set the rate at 2% in 2006. In the fifteen years between 1982 and 1997, our domestic soda ash industry enjoyed a steady and significant growth in exports. But after 1997 export growth slowed dramatically. By 2003 our U.S. exports were only 4% above their 1997 levels. This rapid decline in export growth resulted from a sudden and dramatic change in global competition. In the brief span of the decade of the 1990's, China went from importing over one million tons of soda ash per year to becoming a two million ton net exporter. By 2000 China had become the world's largest producer of soda ash, though hardly the most efficient. A growing number of state owned Chinese producers making soda ash from a more energy intensive and more greenhouse gas generating synthetic process, flooded international markets with lower priced material aided by an export VAT rebate incentive. While these exports had a larger carbon footprint they were hurting our cleaner, more efficient American natural soda ash producers in growing markets particularly those in Asia and South America.

Faced with this state owned competition, we identified innovative ways to reduce spiraling structural costs, and the increasing prices we paid for energy and transportation. However, as our export growth slowed in the early part of the last decade we also had to reduce employment. To remain globally competitive we regrettably shed almost 1000 jobs as an industry. Mr. Chairman, this was not a preferred option. It was in this context that we decided to ask the Congress to consider that the royalty we pay on each ton of soda ash be assessed at two percent as called for originally in the underlying Minerals Leasing Act.

Mr. Chairman, in 2006, just as today, our low cost natural soda ash production process when allowed to compete fairly on a level playing field can beat any other producer in the world. In sum, then as now, if conditions are equal, we know we can compete with any other global producer. We can mine the vast underground trona ore reserves in Wyoming or in lake beds in California, and bring this raw material above ground to be processed into soda ash. We can then ship it by rail to Portland, Oregon, or Port Arthur, Texas, and deliver to any Asian port and effectively compete for our fair share of global business against the Chinese.

Mr. Chairman, as a result of the action Congress took in 2006, our industry came out of its downward spiral and experienced sustained growth driven by our ability to again grow exports. Despite a global recession and a continuing slow recovery, the American Natural Soda Ash industry did not lose jobs during the recent recession, and in fact added almost 100 new jobs in 2010. To put this in perspective, one out of every two jobs in our U.S. soda ash industry is now the direct result of exports. US Soda Ash exports have risen by more than 1 million tons since enactment of the soda ash royalty legislation. As Mr. Robert Abbey, Director Bureau of Land Management, stated in Senate testimony on August 3, 2011, exports increased by some 11.7% in the period during which the 2006 act was in effect. It thus puzzled us as to why the BLM saw fit to immediately reinstate the 6% rate when the 2006 Act expired in October.

Very simply, the 2006 Act allowed us to grow exports in large part because we could reinvest in our business at higher rates. During the five years this Act was in effect, we reinvested in our business at rates well above those before its passage. In 2005, the year before the royalty was enacted, the US soda ash industry spent some $88 million dollars in capital improvements. In 2006, the year after passage, and with the predictability of a stable two percent royalty, the US soda ash industry nearly doubled its rate of investment in our future, spending over $158 million dollars in expanded capacity and improvements.

However, Mr. Chairman as of October when the BLM immediately reinstated a 6% royalty, it appears to us that we may be headed back to that bleaker future that existed prior to 2006. According to United States Geological Survey data, US exports for January and February of 2012 have fallen below the average exports for all of 2011. While the BLM has indicated they would entertain individual lease by lease applications for waivers of their 6% royalty, nothing in their 100 page guidance document addresses export growth. When we attempted as an industry to submit a streamlined application for relief earlier this year based upon maximization of production on federal lands, we were denied. We would be pleased to make our application available to the Committee for its review.

Thus, Mr. Chairman, we again turn to Congress to restore the two percent royalty rate by enacting H.R. 1192. In sum, soda ash production represents hardcore US manufacturing at its best. We hear every day American manufacturing jobs are disappearing and we have a shrinking middle class. The production of soda ash from US natural resources in Wyoming and California is done by skilled workers with an average salary of about $85,000 per year in very small and rural communities. Growing US soda ash exports will increase the number of those jobs. Moreover it will help grow Treasury revenues. When the Congressional Budget Office (CBO) produced cost estimates for legislation implementing the 2006 royalty reduction, it concluded that the that the government would lose $15 million in direct spending and $15 million in payments to states in which the royalties are generated. In actuality, over the four year period, royalties tallied over $85 million.

Mr. Chairman, we hear a lot of discussion about how Congress can help U.S. manufacturing to restore jobs and economic growth; i.e., to recapture our economic swagger. We would suggest the bill before you has already proved successful in doing so for one important sector of our economy. We believe the 2% rate should be reinstated. Thank you for your consideration of our views. My colleagues, the other leaders of America’s soda ash industry, and I would be pleased to take your questions.