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"Responsible Domestic Resource Development and

Economic Stability –

The Role of the Hard Rock Mining Industry"

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2002 and the first half of 2003 were generally good for Nevada's mining industry if, for no other reason than for the first time in four years, the annual average price of gold started with a "3". After averaging in the $270 per ounce range for the previous three years, gold averaged $310 per ounce in 2002 and $350 in the first half of 2003 and is over $380 per ounce at the time this testimony is being prepared. This additional $40 per ounce in 2002 and $80 per ounce in the first half of 2003 makes an enormous difference in an industry producing around eight million ounces of gold per year. The current price in the $380 - $390 range is responsible for a significant increase in exploration expenditures as companies seek to expand existing reserves and find new deposits.

Nevada gold mines produced 7.73 million ounces of gold in 2002, down slightly from 8.13 million ounces in 2001. Silver production was also down in 2002 at 13.6 million ounces from 17.5 million ounces in 2001 and over 23 million ounces in 2000. The declines in production of both metals were the result of declining ore grades and mine closures or temporary closures.

In spite of declining production, gross proceeds of Nevada mines (including geothermal and oil production) increased to $2.7 billion in 2002 from $2.5 billion in 2001. Approximately $2.4 billion, or 89 percent, of these 2002 gross proceeds were generated by gold and silver production. Net proceeds of mines also increased in 2002 to $533.7 million from $438 million in 2001. This increase resulted in a corresponding increase in Net Proceeds of Minerals tax revenue from $21.4 million in 2001 to $25.6 million in 2002, a 20 percent increase. Gold price increases in the first half of 2002 offer the prospect that these revenues flowing to the local and state coffers as well as revenues from other taxes paid, especially sales and use tax and property tax, will reverse their recent course.

Although mining employment has not yet recovered, if prices remain in their current range, we can expect that mining employment will begin to recover. Employment in mining as in the rest of the economy tends to lag behind investment.

Other positive developments that are largely attributable to increasing gold prices are several expansions of operations that are currently in the permitting phase, that is, where operators are currently seeking operating permits from federal and State regulatory authorities. Glamis Gold is seeking permits to expand operations at its Marigold mine in Humboldt County; Newmont is seeking permits to develop its Phoenix deposit in Lander County as well as expanding its operations at Gold Quarry in Eureka County; and Cortez Gold Mines Joint Venture is seeking permits to expand its Pipeline operations in Lander County. In addition, Hecla Mining has entered into an agreement with Great Basin Gold Ltd. to develop Great Basin's Ivanhoe prospect at the north end of the Carlin Trend in Elko County; and Placer Dome has reopened its Getchell Mine in Humboldt County.

In spite of these positive developments, Nevada's gold industry faces some significant technical and regulatory challenges. One disturbing trend in Nevada's gold industry in 2002 was the increase in operating costs. The weighted average cash cost per ounce for mines in Nevada increased from $179 per ounce in 2001 to $206 per ounce in 2002, a $27 or 15 percent increase. Gold Fields Mineral Services (GFMS) estimates that energy cost increases for diesel fuel and electricity alone account for between $5 and $10 per ounce of this increase.[1] Other factors raising Nevada producers' costs have been declining grades in older operations and the shift from open – pit surface mining to more costly underground mining. Approximately 27 percent of 2002 Nevada gold and silver production came from underground mining compared to 20 percent in 2001 and that trend will continue for the foreseeable future.

All of these factors, as noted by GFMS, have resulted in U.S. and Nevada producers going from among the lowest cost producers to the highest cost producers in the world.

Nevada's gold producers face other challenges that have a bearing on production costs. One of these challenges is the rising cost of insurance for bonding for reclamation expenses. Recent changes in federal regulations have required cash bonds for reclamation for both exploration and operating permits. The problem of rising insurance costs is exacerbated by what some have called a "crisis" in the insurance industry as a result of insurance company stock market losses and the rising costs of lawsuits in various industries.

However, it should be noted that bonding for exploration is, on the whole, a reasonable requirement and the industry has generally supported it. In the case of bonding for exploration, the cash amounts are generally small because of the small scale of disturbances. The main problem, particularly for smaller operators, has been delays in getting BLM approval of bond amounts. In the mining business, like other businesses, time is money and these delays add to project costs.

Another problem facing the industry is the rising costs of legal action in the permitting process for operators. Environmental groups are routinely challenging applications for virtually all permits in the administrative process and then, if permits are granted, they file suits against the State and federal agencies responsible for issuing permits. These actions tie up development plans and, like insurance costs, add to operators' overhead costs. In most cases these appeals are rejected and lawsuits are either lost or dropped. The appeals and suits are simply attempts slow exploration and mine development and, in my opinion, constitute an abuse of the NEPA process.

The increase in Nevada operators' overhead costs in the past year has been as notable as the increase in cash operating costs noted above. In 2001 cash operating costs, as noted above, were $179 per ounce, and total costs were $226 per ounce, indicating non-cash costs of $47 per ounce. In 2002, cash operating costs were $206 per ounce and total costs were $266 per ounce, indicating non-cash costs of $60 per ounce, a significant 28 percent increase in non-cash costs.

Nevada producers ended 2002 with approximately 69 million ounces of proven and probable gold reserves, which is gold contained in ore that can be mined at a profit. This is down slightly from year-end 2001 reserves of 72 million ounces but suggests that all but three million of the 7.73 million ounces produced in 2002 were replaced by exploration and discovery of new ores. The increase in exploration spending in the State reported by the Nevada Division of Minerals from $51.2 million in 2001 to $64.6 million in 2002 along with higher gold prices make it likely that Nevada's reserve base will increase in the future. While this trend is favorable, total exploration expenditures still lag far behind expenditure levels in the early 1990's when they were over twice the 2002 level.

These industry developments clearly show that Nevada's minerals industry is seeing a reversal of a downward trend over the last five years that has been an economic challenge. In general, the Nevada mining industry is realizing a healthier bottom line at many operations, especially for producers of precious metals. The North American precious metals industry has worked its way through the difficult period of the late 1990's and is in much healthier financial condition. Nevada remains a major player in the world gold industry. Moreover its large reserve base and existing capital investment make it likely that it will remain a major player for the foreseeable future.

Nonetheless, the bottom line is that Nevada's mineral industry has to compete for exploration and development capital with other parts of the world. North American mine and exploration managers have to convince their bosses to sink scarce capital into Nevada rather than other parts of the world. For this investment to continue, the industry, with the assistance of public policy makers, need to find solutions to problems like high energy costs, access to bonding for reclamation, delays in permitting, and abuse of the NEPA process.

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[1] Philip Klapwijk, et al., Gold Survey 2003, Gold Fields Mineral Services Ltd., London, April 2003, p. 45.