

Committee on Resources

Subcommittee on Energy & Minerals Resources

Witness Statement

HOUSE SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES

RENO, NEVADA

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TESTIMONY OF RUSSELL A. FIELDS, PRESIDENT,

NEVADA MINING ASSOCIATION

I am Russ Fields, President of the Nevada Mining Association. We appreciate the committee holding this field hearing in Reno. We are sitting only several hours away from the greatest gold producing region in North America. The Nevada Mining Association is the trade association for Nevada's mining industry. We have approximately 400 members ranging from several of the largest gold, silver and copper mining companies in the world to individuals who are interested in mining. Our members also include industrial minerals producers: miners of crushed stone, barite, limestone and gypsum, among others. Suppliers to the industry - those who provide the goods and services needed to conduct the business of mining - are also among our membership.

NEVADA'S HARD ROCK MINERAL INDUSTRY

Mining has always played an important role in Nevada's economy. Indeed, it was the fabulously rich Comstock lode silver mines, just 17 miles from Reno that provided the economic engine and population that led to Nevada's becoming a state in 1864. Over the years, this state has had numerous episodes of mining for a wide variety of mineral products - copper, tungsten, lead, zinc, silver, antimony, gypsum, barite and the list goes on. Today, gold is by far our most important mineral product. In 1998, Nevada mines led the nation in precious metals production, producing some 76 percent of the domestic gold and 38 percent of the nation's silver.

Although Nevada's mining industry faces a number of important market, technical and regulatory challenges, the industry has developed a large, efficient and economically viable capital base that is fundamentally sound and sustainable well into the next century. This capital base has been built through investment of over \$10 billion in expenditures in plant and equipment and exploration since 1980.

Any federal action concerning hard rock mining has the potential to significantly impact Nevada and Nevada's mining industry. This state is approximately 87 percent owned by the federal government. These lands are held in the form of military withdrawn lands, wilderness, a national park and public lands managed by the Department of Interior, Bureau of Land Management and the U.S. Forest Service. The military lands, wilderness and park are, of course, off limits to mining. It is the BLM and Forest Service managed lands where a miner operating under the General Mining Law of the United States and myriad other federal and state laws and regulations has an opportunity to develop hard rock mineral resources.

ECONOMIC IMPACTS OF MINING IN NEVADA

At the end of 1998, there were more than 13,200 men and women directly employed by the mines and another estimated 43,000 jobs were involved in providing goods and services to the industry. The direct

mining jobs are the highest paid sector in our state economy, with an average annual salary of \$50,000. This is well above the average salary in Nevada of less than \$29,000. Mining contributed over \$1.81 billion to Nevadans' personal incomes in 1997.

In addition to the significant employment in Nevada's rural counties, with direct mine annual payroll exceeding \$650 million, tax payments to state and local government in 1996-97 totaled approximately \$125.5 million. These tax payments come in the form of sales and use tax - modern mining is extremely capital intensive with some single pieces of equipment costing in the millions - property tax and net proceeds of mines tax. A large portion of these taxes stays with the local government due to state tax distribution formulae. Over \$1 billion in state and local taxes have been paid by Nevada mining from 1987 through last year.

The key to sustaining tax revenues from Nevada's minerals industry is maintaining capital investment in the industry's production capacity and in mineral exploration. Nevada's unique geology is clearly the most important factor in attracting capital investments and exploration expenditures. However, Nevada's tax and regulatory structure also play a key role in industry investment decisions. A reasonable tax and regulatory environment are critical to maintaining a world class minerals industry capable of sustaining production here in our state. More importantly, a consistent, reasonable federal mineral policy is essential for the future of mining, both here and throughout the U.S.

THE BUSINESS OF MINING

There are some facts about modern hard rock mining that are relevant. First, for metals such as gold silver and copper, miners are price takers. That is, the price of their product is set in the world market place that cannot be effected by any single producer. The dynamics of the markets also preclude any group of producers from being able to have any significant effect on the price. Given these facts, the only business variables that a mine can control in the long run are its costs of production.

As an example, we are currently experiencing 20-year lows in the price of gold. In 1998, Nevada mines reduced their direct cost of production by an average of approximately \$15 per ounce. This was done through gains in productivity brought about by improved efficiency and mining of higher-grade material where possible. Certain capital expenditures and exploration activities are being delayed as well to conserve cash. Unfortunately, approximately 1,550 direct mining jobs were lost during 1998 as a result of tightening down on expenses. Many others involved in providing goods and services have also struggled during this period. That situation continues today.

Second, the regulatory climate for modern mining adds costs and time delays. The modern mining industry has largely agreed with the vast improvements in protection of land, water, air and wildlife over the past 15 to 20 years. These improvements, which absolutely distinguish modern mining's environmental practices from historic activities, do add significant costs to doing business. However, to the extent these changes are reasonable and actually benefit the environment and improve safety, mining has been supportive.

Third, because metals and other valuable minerals are distributed unevenly in the earth's crust, geologists focus on identifying concentrations of metals or minerals that have the prospect of being mined and produced at a profit. Concentrations that have this property are called ore deposits. Because the term ore, by definition, implies that it can be developed and produced at a profit, what is ore and what is not changes routinely with changes in price and changes in costs. As costs rise, or prices fall or both, what previously may have been counted in a mining company's books as ore reserves, may fall into an unmineable category. It is no longer ore because it can't be mined at a profit. If a mine's ore reserves are reduced due to economics (or any other reason), the life of the mine is shortened and the economic benefit of mining comes to an earlier end.

EFFECTS OF FEDERAL FEES AND ROYALTY

The foregoing facts about the business of mining are well-recognized in our industry, but they bear repeating in some detail because increased fees, costs, royalties and so on imposed by the federal government result in reduced ore reserves and therefore, reduced mine lives. The obvious result is the loss of employment and the positive economic impacts on communities.

Exploration is one of the first mining related activities to suffer the effects of higher costs brought on by fees, royalties and so on, or lower prices. Exploration is the effort mining companies make to discover new mineral deposits to take the place of ore that is mined. Nevada, and the United States, has seen significant decreases in exploration activities over the past several years. In Nevada, the state Division of Minerals reported a 32 percent decline in exploration expenditures for 1997.

A significant part of the discussion over the General Mining Law has surrounded the issue of royalty. Any royalty is an added expense and will have a negative impact on mining and the communities in which mining takes place. However, if there is to be a royalty, a net proceeds type royalty seems to fit hard rock mineral production best because it takes into account the costs of extracting the metal from the rock and the fact that producers have no opportunity to pass royalty through to customers. When prices are low, as they are now for gold and copper, the royalty will be lower, but under net proceeds, operations can stay in business, jobs and contributions to local economies can be maintained. When prices are higher, the royalty will also be higher. This is fair and equitable to both the public and to the industry.

As opportunities in the United States are made less attractive because of more regulation and higher costs, including the effect of fees and royalties, the mining companies will leave for foreign venues. Mining capital is highly mobile. In this regard, Nevada and the United States are competing for mining business with the likes of Chile, Australia, Indonesia, South Africa and many other places that host economically recoverable mineral deposits. This results in lost opportunity for domestic creation of wealth through mining and the positive economic impacts at all levels.

CONCLUSION

In summary, any increase in federal fees, including regulatory costs, maintenance fees, royalties or the removal of any benefit, such as percentage depletion, has the exact same impact on a mining company bottom line as does a reduction in the price received for the mineral product. Currently, modern mining is facing many increased costs in a low price environment. This exacerbates the problem and increases the impacts on local and state government as a result of business impacts on the mining industry. This suggests that Congress should take great care when considering the imposition of new costs on this industry. The specific impacts of any fee, royalty or cost of compliance should be carefully evaluated.

We are particularly thankful for the sub-committee's decision to come to Nevada to receive information to assist you in making good decisions.