

Committee on Resources, Subcommittee on Energy & Mineral Resources

[energy](#) - - Rep. Barbara Cubin, Chairman

U.S. House of Representatives, Washington, D.C. 20515-6208 - - (202) 225-9297

Witness Statement

**Statement of
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before the
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON RESOURCES,
SUBCOMMITTEE ON ENERGY & MINERAL RESOURCES
MARCH 29, 2001
Concerning
"Effect of Mining Claim Fees on Domestic Exploration: Are They Worth It?"**

I am here today to tell you about the devastating effect the \$100 per claim maintenance fee has had on individuals, rural communities, the mining industry, and the future supply of minerals to the United States.

Basics of Mining Claims

The right to locate a mining claim on public lands administered by the Bureau of Land Management (BLM) or the United States Forest Service (USFS) is granted under the general mining law. Claims are self initiated by persons or companies who want to explore and develop the minerals under the claim. The surface and minerals continue to remain under the jurisdiction of the BLM or USFS.

A typical mining claim's maximum size is 600 feet wide and 1500 feet long and covers about 20 acres. A total of 32 claims will normally cover one square mile, or 640 acres. One mining claim usually does not cover an entire mineralized zone. Consequently, hundreds of claims may have to be staked to cover the zone and other potential undiscovered zones.

A mining claim is required to be filed with the county in which it is located, and in Nevada, costs \$26.50 for the initial filing and another \$5.50 annually. The same claim also has to be filed with the BLM, which requires a \$100 maintenance fee and a one-time \$35 filing fee for a total of \$135. Then, every September 1 thereafter, the BLM collects a \$100 maintenance fee to keep the claim valid. Non payment to the county or BLM invalidates the claim.

On an acre basis, the combined initial filing fees average \$8.075 per acre, or \$5,168 per square mile, thereafter it is \$6.75 per acre or \$4320 per square mile. For simple comparison, the annual geothermal leasing fees may be as low as \$1.00 per acre or \$640 per square mile, and oil and gas rental fees may be as low as \$1.50 per acre or \$960 per square mile.

The county filing fees that are collected in Nevada are distributed to the county and to the Nevada Division of Minerals. The counties use the fees to fund the recordation and management of the claims. The Division of Minerals uses the filing fees to fund the state abandoned mine program. None of the fees collected by the

BLM assist the counties or state, but go instead to the U. S. Treasury.

Stages in the Exploration and Mining Process

The reason the general mining law was developed was to give all citizens of the United States an opportunity to earn a good living and to supply the nation with important metals. Back when the mining law was passed, the nation needed gold and silver, and it wanted to populate the wide-open spaces of the West. As time went by and as the nation needed new supplies of different metals for its growth, the prospector was out looking for the metal that was in demand.

Now let me discuss the different stages of the exploration and mining process. Please be aware that if the first exploration stage is unsuccessful, then the other stages do not take place. Furthermore, extensive permitting and bonding is required by state and federal agencies at every step in the process.

The first stage is grassroots exploration, or prospecting. Prospecting identifies mineralized areas, and if they have potential for a discovery, then they are acquired under the location rules of the general mining law. After the claims are located, the surface is further examined and the subsurface tested with drilling or trenching. The persons that usually do the initial prospecting and staking of mining claims are single individuals or persons employed by a company. The cost to stake mining claims usually average about \$100 per claim and this is a direct cost to the locator, before the filing fees are paid.

The second stage is discovering a potential economic ore body and defining its size, grade and economic viability. A junior mining company usually does this step, but only if it has the financial resources. Major companies will also do this, but only after they have acquired the property from a prospector or a junior. The amount of money that may be spent during this phase is from \$1 million to \$10 million. Generally, a large portion of the money that is spent stays in the community, which is near the ore body.

The third stage is building the mine facilities and developing the ore deposit. The amount of construction investment ranges from \$25 million to \$200 million to build the mine, and with considerable risk. Again, a significant amount of this money stays in the communities it is spent. Only medium to large sized companies have the expertise and finances to complete this step.

The fourth stage is mining the orebody, which results in long term jobs, payback and profit for the company, and tax money to different government entities.

The fifth stage is closure and reclamation of the mine to the standards committed to in the original operating plan and which a reclamation performance bond guarantees. When completed, the land returns to its previous use, which in the West is usually range for wildlife or cattle. The amount of money spent during this phase ranges from \$1 million to \$20 million.

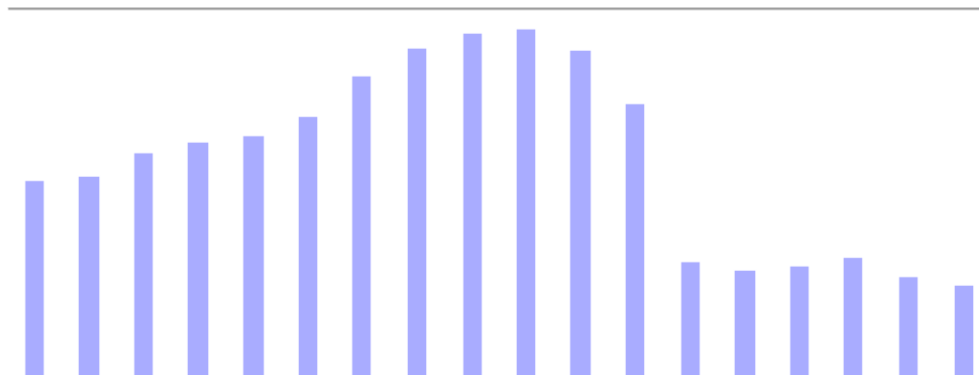
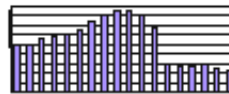
The time frame for discovering and exploring for an economic deposit may be from three to ten years. It may take another three to five years and \$30 to \$200 million of investment to develop a mine. Much of this money is spent locally to the benefit of nearby rural communities.

The \$100 Fee in 1993

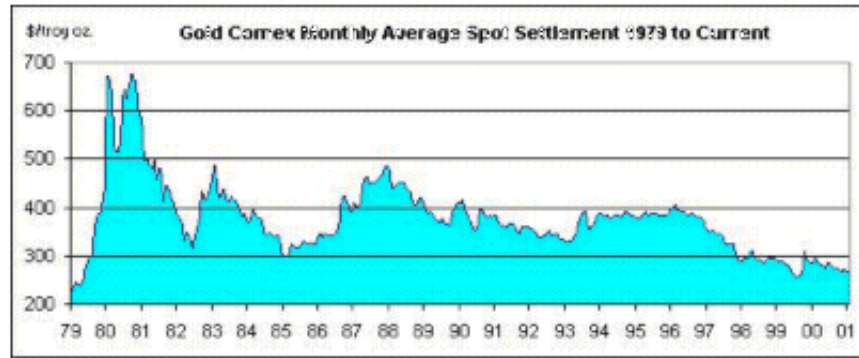
When the \$100 maintenance fee and \$25 filing fee (later increased to \$35) were authorized via a rider in 1993, Congress thought this was a good way to reduce the environmental impact on public lands by

eliminating the \$100 per claim assessment work requirement. When the rider was passed, the Western United States was experiencing a major gold exploration and mining boom. Unfortunately, Congress may not have been fully aware of the overall five stages of exploration and mining process, as I described above. Nor was Congress able to predict the devastating impact the maintenance fees would have on the first stage of exploration to individuals, communities, mining companies, and the potential future well being of the United States.

The chart below shows the number of active claims on an annual basis in Nevada since 1982. Practically all of these claims were located over gold prospects and mines, while only a small number were located over copper, silver or lead-zinc prospects. The chart shows the impact the maintenance fee has had on Nevada since its passage in 1993. In the last three years, claim numbers continue to decline due this fee and low gold price.



Gold Price History



The following chart shows the history of the gold price from 1979 to the present. At the time of the introduction of the maintenance fee, the gold price rose from about \$330 per ounce to near \$400 per ounce and remained at that level for several years. These data suggest a strong correlation between the decline in mining claims in 1993/1994 and the maintenance fee imposed on mining claim owners. The decline in claim numbers was not due to a decline in gold price.

The Fee Takes Effect

When the maintenance fee was enacted in 1993, the entire exploration community experienced shock and disbelief. Many individuals had hundreds of claims, and they couldn't afford to pay the BLM the \$5000, \$50,000, or more required to hold them. Larger companies could pay the new fees, but if the fees were not budgeted, or some claims were considered to be of low potential, then they dropped thousands of claims to save money. This resulted in less money to the government than had been predicted. As the chart shows, the number of claims held in Nevada dropped from about 350,000 to under 150,000 claims. People could not afford to hold mining claims while they explored them and with the hope that a large company might lease them. Of the claims that had their maintenance fees paid, most were retained by large companies at the operating mines or by small companies with some cash.

The \$100 maintenance fee basically wiped out the individual prospector and most of the exploration conducted by companies. Essentially, the very first step in the exploration and mining process had literally been eliminated and the following steps in the mining process would not take place.

The "One Job Creates Seven Jobs" Rule

John Dobra, a mineral economist at the University of Nevada-Reno, has studied the creation of other jobs in communities from just one mining job. He reports that for each employee of a mining company, seven more jobs are created in communities both near and far from the mining site. This job creation has tremendous economic implications to rural communities.

The same is true for prospectors and explorationists. When the \$100 maintenance fee was instituted, the prospectors stopped going to the field to look for good mineralized areas. They stopped paying the county fees on their claims, and they didn't buy gas, groceries, truck repairs, sample bags, or motel rooms. They didn't contract bulldozers, backhoes or drill rigs. Assay labs didn't have samples to analyze. Basically, all the people that depended on the exploration activities of prospectors and geologists could no longer make a living.

Communities like Silver Peak, Eureka, Tonopah, and Ely were literally devastated because the prospectors stopped coming to town to spend money. Stores closed, gas stations went out of business, and heavy

equipment operators sold their equipment. Rural Nevada shut down. Thousands of people lost their jobs, including a lot of my friends.

The Impact to Golden Phoenix, a Junior Exploration Company

The \$100 maintenance fee has affected the way Golden Phoenix Minerals has conducted its business. The company was incorporated in 1997, just when resource companies fell in disfavor with investors, tech stocks were looking to make a run on the markets, and the gold price was starting its decline to \$250 per ounce. The company is a publicly traded "junior" company with two key employees, has very limited financial resources, and has typically struggled its entire existence. The company is also one of the very few left in Nevada that is attempting to find and develop ore bodies. We hope we can survive until better times come.

In the 1998 filing period, the company was in desperate times. Our money had run out, and we were just realizing that we would not be getting paychecks. We dropped four exploration properties for a total of 241 mining claims and saved \$24,100. In the 1999 filing period, we dropped two more of the properties and reduced the other properties for a total of 190 claims. Our payment to the BLM that year was \$48,700, which we got from some limited investor financing. We were living on our savings and hadn't seen a pay check for a year. In 2000, our finances were better, but we reduced our claim blocks again by another 33 claims, to save money. That year we paid \$45,400 to the BLM.

During the last three years, the \$100 maintenance fee was constantly in the forefront of our planning. We had to save and scrimp to make those payments. If we failed to meet them, then we would lose the properties that held drilled defined mineralization, and the company would be forced to shut down under bankruptcy. We went through considerable stress over this. In addition to paying the filing fees, we still spent any available money on the properties to explore them. Essentially, the \$100 maintenance fee was a double whammy. We needed to explore our properties, but we had spent the money on the maintenance fees just to keep the claims.

This past December we became very excited about a new mineralized area that we had discovered, which had gold values of up to one ounce per ton. We contracted a land surveyor to locate 120 claims, which cost us over \$12,000 in direct costs to complete. As it turned out, when it came time to file the claims, we didn't have the \$19,380 required to file the claims in the county and BLM, and the claims are now invalid. We are out \$12,000 plus the claims.

The Potential Long-term Impact on the United States

The United States is the major economy in the world, and energy and raw materials allow it to enjoy high living standards. However, California is finding out that electricity does not come from a light switch. They will have to spend several years building power plants before that light switch is secure. The same goes for mining. We have shut the switch off and the country will suffer for it in the future. By taking away the incentive to find ore deposits in this country, the long-term viability and productivity of the mining industry will grind to a halt, and it is definitely grinding to a halt. Even though we can get some of our raw materials from foreign countries, this is not risk free, nor is it secure.

Since the \$100 maintenance fee was instituted, the entire infrastructure of the exploration community has been eroded away. The attack on the exploration and mining industries during the Clinton years has been the "Perfect Storm", just like the movie. Many small to medium sized mining companies engaged in exploration shut down or moved overseas, where the risk to operating was perceived to be less. We have

lost hundreds of skilled people, foremost exploration geologists, self-educated prospectors, claim surveyors, assayers, drillers, and technicians. Most of these people now have other employment and may not come back even with changes in the laws and regulations.

The low price of gold, the legislative land withdrawals, the maintenance fee and ever tougher environmental regulations have all come together in the "Perfect Storm" to severely weaken the exploration industry. We need a lifeline, not an anchor. It may take awhile for exploration to recover.

Proposed Alternatives

What do we do about the \$100 maintenance fee? The best thing we can do is to get rid of it. However, if getting rid of the \$100 fee is not possible, the Committee could consider the following alternatives:

1. Allow assessment work and permitting costs to be filed in lieu of the \$100 maintenance fee.
2. Reduce the maintenance fee to \$20 per year, retain the one time \$35 filing fee, and require the money be kept in the county of origin.
3. If the fee is retained, then pro-rate the initial cost of filing so that only a full year requires \$100, a half-year is \$50 and so forth.

Summary

The \$100 maintenance fee has had a devastating effect on the mineral exploration industry, including individual prospectors, small companies, and major mining concerns. There has been the loss of a large number of jobs in the rural communities where exploration takes place. Less exploration has created the future loss of raw minerals for industrial America, the affect of which we have yet to feel. I urge Congress to eliminate or significantly reduce the \$100 mining claim maintenance fee and, by doing so, create new opportunities for the discovery of the additional mineral resources by the American prospector.

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