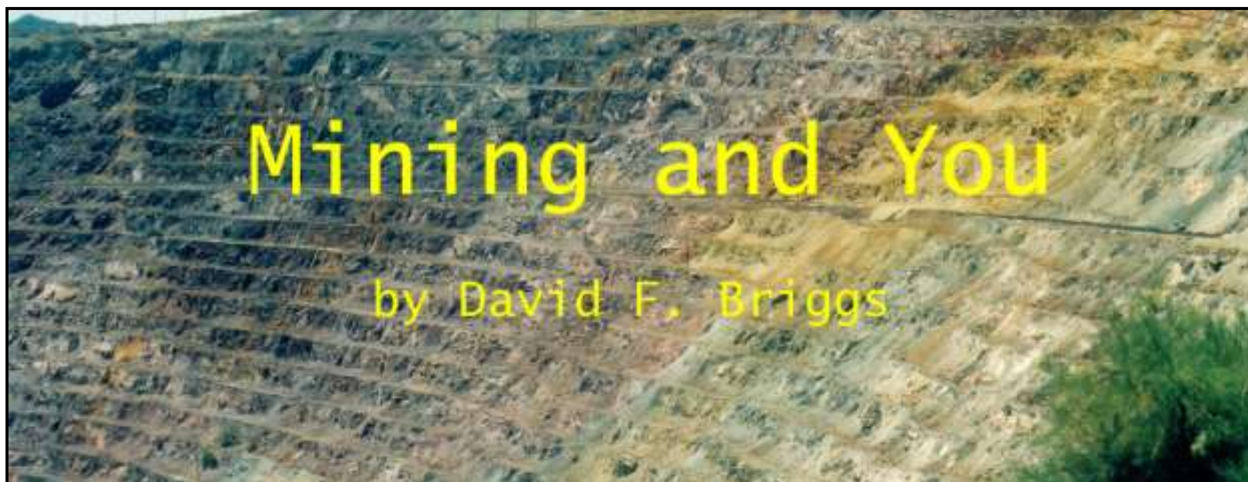

Let's Not Kill the Goose that Laid the Golden Egg

by David F. Briggs

Once again, reform of the General Mining Act of 1872 has been brought to the forefront of public debate with the recent introduction of a legislative proposal to Congress. One of the primary goals of the Abandoned Mine Lands Cleanup and Taxpayer Fairness Act is to increase the taxpayers' return on investment through the imposition of a 12.5% royalty on gross income derived from the production of locatable minerals on federal lands.

While similar gross income royalties are common for leasable minerals such as oil, gas and coal, doing the same for locatable minerals would threaten the economic viability of many metals mining projects. Unlike other extractive industries, metals mining operations require considerably higher costs for infrastructure, which is only used at a single project and specifically designed to treat ores from that mine site. These costs alone can exceed $1 billion. On- and off-site beneficiation costs required to produce a marketable product from ores, containing a metal content of less than 1.0%, are considerably greater than treatment costs for leasable minerals, which only require limited amounts of processing before most of the mined material becomes a marketable product. In summary, the value of marketable products is used as the basis to calculate gross income royalties. This method fails to accurately reflect the value of the raw minerals prior to beneficiation.

The most common types of royalties paid by the metals mining industry are net smelter return (NSR) royalties or net profits interest (NPI) royalties. In its simplest form, NSR royalties represent a small percentage of the proceeds received by the mine operator from the smelter or refinery. The costs of off-site services (transportation, smelting, refining and associated insurance) are deducted from the value of the metals contained within the concentrates and the proceeds "net" of these costs are returned to the mine operator. NSR royalties vary depending on the commodity, but generally average 2 to 3% of net smelter returns. NPI royalties represent a percentage of an operation's revenues, after deducting all on- and off-site costs, including depreciation, depletion and amortization. NPI royalties also vary depending on commodity, but

generally range from 5 to 15% of net profits. Both methods use the value of raw minerals before beneficiation as a basis to calculate royalties.

Closed mines or mines that are never developed will generate no revenues for local, state and federal governments. Indirect impacts include the loss of tax revenues and increased social costs resulting from a decline in employment opportunities. If the federal government is truly interested in maximizing the revenues it receives from the mining industry, it needs to find ways to encourage and promote the exploration and responsible development of our nation's mineral resources. Both NSR or NPI royalties optimize the use of our natural resources, allowing both business and government to maximize the benefits received from mining locatable minerals on our public lands.

Disclaimer: David F. Briggs is a resident of Pima county and a geologist, who has worked in the mining industry for thirty-five years.

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