

**ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE**

February 27, 2013

12:28 p.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Cathy Giessel, Chair
Senator Peter Micciche
Senator Click Bishop
Senator Lesil McGuire
Senator Anna Fairclough
Senator Hollis French

HOUSE RESOURCES

Representative Eric Feige, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Geran Tarr

MEMBERS ABSENT

SENATE RESOURCES

Senator Fred Dyson, Vice Chair

HOUSE RESOURCES

Representative Dan Saddler, Co-Chair
Representative Mike Hawker
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Chris Tuck

COMMITTEE CALENDAR

OVERVIEW: MINING INDUSTRY BRIEFING

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MICHAEL SATRE, Executive Director
Council of Alaska Producers
Juneau, Alaska

POSITION STATEMENT: Provided information about the mining industry.

KAREN MATTHIAS, Managing Consultant
Council of Alaska Producers
Anchorage, Alaska

POSITION STATEMENT: Provided information about the mining industry.

DEANTHA CROCKETT, Executive Director
Alaska Miners Association
Anchorage, Alaska

POSITION STATEMENT: Provided information about the mining industry.

ACTION NARRATIVE

12:28:50 PM

CHAIR CATHY GIESSEL called the joint meeting of the Senate and House Resources Standing Committees to order at 12:28 p.m. Present at the call to order were Senators Micciche, McGuire, Fairclough, French, and Chair Giessel. Senator Bishop and Representatives Wilson, Tarr, and Co-Chair Feige arrived shortly thereafter.

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MINING INDUSTRY OVERVIEW

CHAIR GIESSEL said the only order of business was the mining industry overview.

MICHAEL SATRE, Executive Director, Council of Alaska Producers, said Alaska has seven producing large mines and over 60 exploration projects spending over \$1 million a year (the point at which they are starting to be serious). He said they provide over 4800 direct jobs and it's growing. They have a \$100,000 average annual wage, a significant economic component to the state. He described where the mines are located, the furthest north being the Red Dog open pit lead/zinc mine; Fort Knox is

the open pit gold mine and Pogo is the underground gold mine outside of Delta Junction. The Nixon Fork underground gold/copper mine is on the Kuskokwim region, the Usibelli Coal Mine is in the Railbelt area, and Southeast has the Coeur Alaska Kensington Gold mine just north of Juneau and the Hekla Greens Creek Mine on Admiralty Island.

Several advance exploration projects are happening around the state towards Red Dog; Kotzebue has the Upper Kobuk mineral projects, a partnership with Nova Copper; NANA has the Livengood Gold prospects north of Fairbanks, the Donlin Gold prospect on the Lower Kuskokwim and the Pebble project in the Bristol Bay area; Chuitna and Wishbone Hill are some coal projects; Southeast has the Bokan Mountain Ucore Rare Earth project and the Niblack copper/zinc/silver mine.

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KAREN MATTHIAS, Managing Consultant, Council of Alaska Producers, said mining is a very global industry for two main reasons; one is that the price of the product is determined not by the cost to produce it but by global markets and two, because the huge costs to explore and develop mines require a very large investment base.

Looking at the commodities, she said that copper, lead and zinc prices for the last 10 years had been very volatile. Along with aluminum, those three base metals are the most widely used, their prices being driven by industrial demand and more generally by the global economy. The most common use for lead is batteries and for zinc it's galvanized metals; copper is the bellwether metal, because it is used in electronics and wiring. So, when the economy is doing well and we're building houses, buying cars and investing in infrastructure, the price of the metals go up.

However, Ms. Matthias said the prices also reflect where investors think the economy is going. So, macro-economic uncertainty can impact those prices. Right now we are in a period of macro-economic uncertainty; Europe is in crisis and everybody is wondering what the US is going to do because of the debt ceiling and sequestration along with what is happening with China's growth.

MS. MATTHIAS said it is important to recognize the role that China plays in commodity prices. In the 1980s they bought about 5 percent of the world's base metals; today it's 30 percent.

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MS. MATTHIAS said gold and silver prices looking at 2004 to 2012 are also very volatile. Precious metals also tend to be a safe harbor in times of economic uncertainty, so those prices went up in 2009 after the financial crisis and the economic recession. They moved steadily up until 2011 when they dipped again. It's very difficult to predict commodity prices and that makes it very difficult to attract investment and to judge economic feasibility for a project that might be 10 or 15 years away from production.

She said Alaska has to compete for investment dollars with mining projects all over the world. Since mining requires such high upfront expenditures and high risk, investors tend to pull back when commodity prices are low and invest when they rise. She related where the exploration dollars go showing a graph of exploration spending by region. From a total of \$18.2 billion in 2011, the US accounted for 8 percent of exploration spending in the world (down from 19 percent in the 1990s).

She said the Alaska Permanent Fund plays a role in mine financing as well. Most think of their PFDs coming from oil and gas, but over 292 metals, mining and fabricating investments contributed over a half billion dollars to it as of last year.

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MS. MATTHIAS said looking at the volatility of commodity prices, she was hoping to give the impression of the high financial risk involved in mining exploration and development. Explorers spend millions of dollars looking for the big find and hundreds of millions on development and permitting costs. And because of the uncertainty about commodity prices, once a mine actually comes into production there is no guarantee there will be an immediate return on investment. So, it's good for Alaska to attract outside investment for these developments.

Over \$2 billion has been spent on exploration in Alaska over the last 30 years on dozens of projects, but it has only six large producing metal mines. That is not because we don't have rich resources, but a lot of other issues are taken into consideration when looking at investing here. There's local infrastructure, transportation and fuel costs, whether or not a project is near an energy grid, labor costs and the regulatory uncertainty. She then handed the presentation over to Mr. Satre.

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MR. SATRE discussed the individual commodities currently being developed in Alaska beginning with gold that brought many westerners to Alaska to begin with; and it is a more visible piece of the mining industry these days. It has always been historically significant as a measure of wealth and as a hedge against bad times, but in the modern day it has many more uses for computers and cell phones; it has wonderful anti-corrosive properties and is used in medical procedures; and astronauts wear the gold plated visors.

Alaska's reports over 40 million ounces of gold have been produced since the 1880s. These days annual production is a little over 900,000 ounces per year, supplying roughly a seventh of the US production, but lagging behind the rest of the world.

He said the hard rock large miners are producing now - Fort Knox was one that had completed reclamation of their True North Mine while still investing in their current operations. It poured about 360 million ounces of gold and invested significantly in their equipment with nine new haul trucks, two shovels and one loader. The Sumitomo Pogo metal mine continues to find more resources around the existing mine and are starting to invest in what it would take to develop those and lengthen their mine life. They have produced over 2 million ounces of gold since opening in 2006. A smaller operator, the Fire River Gold - Nixon Fork Mine, came back in operation on July 4, 2011, and continues to invest in their operation to make sure they have sustainable production into the future.

The primary gold producer in Southeast is the Coeur Alaska Kensington Gold Mine; they invested a significant amount of money in infrastructure this year including commissioning an underground pace plant; they built new administrative buildings and warehouse and have gone into phase 2 of their tailings dam.

The Hecla Greens Creek Mine also produces gold as one of four products they produce.

MR. SATRE said placer miners are the heart and soul of Alaska's mining industry and there are about 300 placer mines scattered throughout the state producing 85,000 ounces of gold annually.

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MR. SATRE said he would be here for the rest of the day if he was going to talk about every single gold exploration project, but the big ones are International Tower Hill (ITH) Mines Livengood Project, Barrick and NovaGold that have invested in

the Donlin Gold Project in the Kuskokwim area, the Heatherdale Resources Project in Niblack with gold being the major producer and the Pebble Partnership in the Bristol Bay area with copper as a primary product.

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MR. SATRE said Alaska is an incredible producer of silver, having produced a total of over 140 million ounces; this year it produced 13 million ounces. Many people thought silver would crash once digital photography took over film and the lack of interest in it as an investment metal, but it is an incredible metal for use in medical applications and many electronic applications due to its great conductivity. Worldwide production is significantly more than in Alaska, but the two silver producers, Hecla Greens Creek Mine and the Red Dog Mine, are major producers. Greens Creek has 400 workers and it is a significant property taxpayer in Juneau. They are currently working on an EIS to expand their (dry stack) tailings storage facility to allow for many more years into the future.

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MR. SATRE related that, while gold mines get all the credit, zinc is one of Alaska's primary exports. It has wonderful anti-corrosive properties and it is a key element for life, growth and development. Lead has many uses, also, whether it's on batteries or simply on the end of the fishing line to get it to the right spot. About 155,000 tons of lead and about 700,000 tons of zinc are produced per year. The main producers are the Red Dog Mine (one of the largest producers of zinc in the world), Hecla Greens Creek, Heatherdale Resources' Niblack Mine and the Novacopper in Upper Kobuk.

He said copper is another metal that is incredibly important to the world economy and Alaska has produced over 1.3 billion pounds of it, primarily from the Kennecott Mine with some minor production from Fire River Gold. The world is producing close to 40 billion pounds on an annual basis and if Alaska develops some of its copper projects it can join in and help supply the world economy.

MR. SATRE said that Novacopper/NANA is expending a significant amount of money in the Upper Kobuk mineral project reinvigorating a historical district and maybe a potential important copper producer. The Pebble Partnership is investing in the Bristol Bay area in what is truly one of the world's most amazing undeveloped copper projects; Heatherdale Resources at Niblack has some copper as well.

MR. SATRE said coal was not necessarily part of the group he represents (Deantha Crockett does), but they do have production at the Usibelli Coal mine, a family owned business that has been around for a long time and is an important part of the Railbelt economy at 2 million tons per year (1 million of which is used in Alaska for power generation and about 1 million exported). Usibelli is working on projects at Wishbone Hill and the Chuitna Coal project in Cook Inlet.

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MR. SATRE said rare earth elements have a lot of attention and Alaska doesn't produce any of them, but it has some on the horizon at Bokan Mountain Ucore project in Southeast Alaska. Alaska could ultimately play a critical role in supplying these to the US, just as it does in supplying the other metals.

MR. SATRE concluded saying he would hand the presentation over to Deantha to talk about the local and statewide benefits the mining industry brings.

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DEANTHA CROCKETT, Executive Director, Alaska Miners Association, Juneau, Alaska, said she provided the committee with their annual economic benefits of the mining industry brochure, done by the McDowell Group. She said the report comes out in the beginning of the year, so 2013 reflects their final 2012 numbers. She said \$275 million had been spent on exploration for 60 projects; in addition there were \$270 million in development expenditures and \$3 billion in gross mineral production.

She said with all the emphasis on the oil industry, it's important to recognize what the mining industry contributes; for instance, it provides 4,800 direct jobs and 9,500 total indirect jobs. It has a \$650 million total payroll and the average annual wage is \$100,000. These are very high paying jobs that are year-round and often times in communities without another economy.

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MS. CROCKETT said each year the mining industry does \$500 million in business with only Alaskan businesses: suppliers, contractors and vendors that really depend on the mining industry's activity to make a go. Mining paid a total of \$21 million to local governments in 2012 and is the only taxpayer in the Northwest Arctic Borough, paying \$13 million in lieu of taxes last year. Mining contributed \$5.2 million to the

Fairbanks North Star Borough and \$2.7 million to the City and Borough of Juneau.

She said \$80.4 million was paid to the state government in royalties rents, fees and taxes in 2012 in addition to \$56.9 million to other state government entities such as to the Alaska Railroad for moving coal, sand and gravel, to the AIDEA-built road from the Red Dog Mine, the Skagway Ore terminal and to the Mental Health Trust from activity on their land.

She listed the benefits to Alaska Native Corporations; nearly all benefits from 7(i) and 7(j) royalty sharing and business partnerships (like the NANA Linden Trucking operation at Red Dog). She said there were \$124.7 million in net proceeds from Red Dog last year; \$76.4 million was paid to NANA and distributed to ANCSA corporations throughout the state and nearly 60 percent of Red Dog jobs are held by NANA shareholders. Donlin has also done an amazing job with their camp at Donlin Gold where 95 percent of the employees are Chulista shareholders.

MS. CROCKETT said every ANCSA region in the state has some form of mining potential or activity happening on it. She hoped they would remember that mining works for Alaska; it has for a long time and it will continue with all the mines they had talked about and those on the horizon. What they do is important to the entire world and the local benefits they provide are extremely important to state's economy.

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CHAIR GIESSEL noted the need for the Lake Dorothy hydro project due to Greens Creek's electrical needs, which would benefit all consumers in terms of the kilowatt hour. Mining contributes in so many ways to the economy of communities.

She noted the presence of Co-Chair Feige and Representatives Peggy Wilson and Tarr saying they had joined the committee a while ago. She also noted that zinc was good for preventing colds.

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SENATOR MICCICHE asked with all the energy challenges our state has, what happened to coal.

MR. SATRE responded that he would pass that question to Usibelli and Chuitna, but like any other project in the state, access and infrastructure mean everything. It's expensive to get to it and

there may not be a ready market; but Alaska has incredibly significant resources.

CHAIR GIESSEL said she heard the DNR commissioner say if Alaska was a country we would be 10th in the world in terms of our resources. She thanked the presenters.

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There being no further business to come before the committee, Chair Giessel adjourned the Joint House/Senate Resources Committee meeting at 12:56 p.m.