

2/22/12
MINING
INDUSTRY
BRIEFING

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BRIEFING</SUBJECT><COMM>SRES27</COMM></TARGET>



ALASKA MINERS ASSOCIATION, INC.

Issues of Concern for the Alaska Mining Industry for 2012

Actions needed by the Administration and/or the Legislature:

January 2012

CRITICAL ITEMS: PERMITTING INTEGRITY – LITIGATION REFORM – ENERGY – INFRASTRUCTURE

Integrity of Permitting System - Ensure the integrity of the current rigorous, science-based state permitting process and fund it at a level that will ensure its integrity.

- Provide sufficient staff and funding for permitting functions of the Departments of Natural Resources, Fish & Game and Environmental Conservation.
- Ensure and enhance public confidence in the permitting system.

Increase Oil Flow in TAPS – Without oil flow the entire State economy will implode, with serious consequences for every business, including mining.

Litigation Reform – Support efforts to bring more accountability to the appeals and litigation processes for community and resource development projects.

Infrastructure - Advocate for and fund infrastructure that will provide access to remote areas of Alaska so natural resource projects can be developed.

- Settle on a route from the Parks/Dalton Hwys to Western Alaska and begin the development.
- Establish an effective design standard for pioneer roads.
- Fund roads between communities.

Energy - Advocate and adopt a state energy plan and fund interties, pipelines, hydroelectric, etc. to provide energy for resource development and communities.

- Ensure that Healy Plant #2 comes on line at the earliest possible date.
- Rationalize the management and control of the railbelt electrical intertie system.
- Fund and construct a regional electrical interties.
- Develop and implement a strategy to provide stable sources of energy to the railbelt.

PERMITTING PROCESS

Wetlands Mitigation & Banking – Establish a State mitigation program and evaluate State primacy over Section 404 wetlands mitigation, permitting and management.

Water Quality Standards - Continue to review water quality standards to ensure standards are scientifically supportable and developed using Alaska-specific criteria. Also, ensure continued availability of mixing zones and adoption of anti-degradation regulations.

EPA Permit Review Process - Oppose use of 404(c) and Aquatic Resources of National Importance (ARNI) to stop projects.

Public Interest Litigation – Enact legislation to require public disclosure of funding sources for public interest litigation.

Non-Profit Foundation Money - Enact legislation to require public disclosure whenever funds from 501(c)(3) non-profit foundations are used to affect public policy; disclosure to include name of the source, amounts and purpose for which the moneys are given.

Financial Assurance - Ensure that financial assurance (bonding) requirements for environmental compliance are managed exclusively by the State. Aggressively oppose federal takeover.

Endangered Species Act – Continue to aggressively oppose ESA listings in the courts to ensure decisions are based on sound science.

FISCAL ISSUES

Taxation - Maintain an equitable and stable tax structure at state and local government levels.

State Fiscal Policy - Adopt a long range fiscal plan.

Annual Airborne Geophysical Mapping Program

- Increase funding for the extremely effective airborne geophysical mapping program.

Mineral Education & Training - Continue to support mining engineering and geological engineering, geology, the Mining and Petroleum Training Service (MAPTS), and the Delta Mine Training Center (DMTC) at levels that will ensure a trained workforce; continue funding the State's share of Alaska Resources Education (ARE).

LAND MANAGEMENT ISSUES

State Authorities - Ensure development of state-owned natural resources is not compromised by municipal or borough regulations or taxation or local government moratorium.

Land Management Philosophy - Ensure that uses of land are not mutually exclusive - resource development and recreation; mining and fish; oil and caribou; resource development and subsistence.

RS-2477 Rights-of-Way & Navigability - Continue to systematically and aggressively pursue State rights, both administratively and in the courts, to RS-2477 rights-of-way and State ownership and authority over navigable waters as granted at Statehood.

State Lands - Ensure no net loss of multiple use lands. *Oppose* additions to any state parks, refuges, critical habitat areas, marine restricted areas, or any other restricted-use areas, *unless* an equal acreage of other lands already having a similar designation is released and the new area being designated is first evaluated for mineral potential.

Land Transfers - Prior to any state land transfers to boroughs, land disposals/sales, or leases not required for resource development, require a detailed mineral evaluation, to include airborne geophysical surveys, be completed to help ensure that mineralized lands or key access routes are not transferred.

Outdated Federal Withdrawals - Pursue removal of old federal land withdrawals (where purpose for withdrawal has expired) which are blocking land transfers to the State, such as PLO 5150, the outer pipeline corridor. Encourage BLM to remove such PLOs and open the lands through its land planning process.

New Federal Withdrawals - Oppose all new federal land withdrawals, marine restricted areas, Antiquities Act designations, BLM wilderness studies, etc. and

fight vigorously against additional buffers or other restrictions to multiple use of federal lands in Alaska. Oppose 2001 Roadless Rule and support the restoration of the 2003 Tongass Exemption. The Alaska National Interest Lands Conservation Act (ANILCA) provides that "no more" federal land will be withdrawn for parks, preserves, monuments, wilderness designations, wild & scenic river designations, etc.

International Heritage & Biosphere Designations -

Oppose establishment of international parks, biosphere reserves, and world heritage sites, such as the so-called Beringia (over the Seward Peninsula & Bering Sea), NPRA, or ANWR. International designations would - 1) surrender partial sovereignty to the United Nations, and 2) eliminate access across the affected lands and waters.

Federal Mining Law - Continue to oppose changes to federal law and regulations that would be adverse to Alaska miners.

NPR-A - Petition Congress to open NPR-A to mineral entry and coal leasing.

OTHER ISSUES

Business Climate - Promote Alaska resource opportunities to counter the negative perceptions identified in polls by CNBC, Forbes, etc.

NEPA - Provide funding for State agencies to participate in NEPA processes.

Coal Development - Encourage utilization of coal liquefaction and gasification technologies for Alaska's vast coal resources.

Climate Change - Oppose all federal actions *unless* they are based on sound data and peer-reviewed science.

Jones Act - Because Jones Act vessels for bulk mineral shipments are not available, petition Congress to amend the Jones Act to allow use of non-Jones Act vessels for shipment of "non-petroleum bulk natural resources within or from Alaska or intra-Alaska shipments of petroleum".

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The Economic Benefits of Alaska's Mining Industry

January 2012



Mining is a growing force in Alaska's economy providing jobs for thousands of Alaskans and millions of dollars of personal income throughout Alaska. Alaska's mining industry includes exploration, mine development, and mineral production. Alaska's mines produce zinc, lead, gold, silver, coal, as well as construction materials, such as sand, gravel, and rock.

▶ In 2011, Alaska's mining industry provided:

- ▶ **4,500 direct mining jobs** in Alaska.
- ▶ **9,000 total** direct and indirect jobs attributed to Alaska mining industry.
- ▶ **\$620 million** in total direct and indirect payroll.
- ▶ Some of Alaska's highest paying jobs with an estimated **average annual wage of \$100,000**, over twice the state average for all sectors of the economy.
- ▶ **\$17 million in local government revenue** through property taxes and payments in lieu of taxes.
- ▶ **\$148 million in state government revenue** through rents, royalties, fees, and taxes, up 170% from 2010.
- ▶ **\$172 million** in payments to **Alaska Native corporations**.
- ▶ **Mostly year-round jobs for residents** of more than **120 communities** throughout Alaska, half of which are found in rural Alaska where few other jobs are available.

Largest Producing Mines and Selected Advanced Exploration Projects State and Local Government Tax Obligations

	Land Status	Mining License Tax	State Royalty Payments	Local Govt. Tax Payments
Producing Mines				
Usibelli Coal	State	X	X	X
Greens Creek	Private	X		X
Red Dog	Private	X		X
Fort Knox	State/Mental Health Trust	X	X	X
Nixon Fork	Federal	X		
Pogo	State	X	X	
Kensington	Private/Federal	X	X	X
Advanced Exploration Projects (Projected Payments)				
Chuitna Coal Project	State/Mental Health Trust/ Private/Borough	X	X	X
Wishbone Hill	State/Mental Health Trust/ Private	X	X	X
Donlin Gold	Private	X		
Livengood	State/Mental Health Trust	X	X	
Niblack	State/Federal	X	X	
Pebble Project	State	X	X	X

▶ 2011 Economic Benefits *estimated*

Exploration

- ▶ **\$300 million** spent on exploration, up 13% from 2010.
- ▶ **60 exploration projects** spending more than \$100,000, of which **30 projects spent more than \$1 million**.
- ▶ **\$2.8 billion** spent on exploration since 1981.

Development

- ▶ **\$175 million** spent on **mine construction**, down 40% from 2010.

Production

- ▶ **\$3.8 billion in gross mineral production value** from Red Dog, Greens Creek, Fort Knox, Pogo, Kensington, and Usibelli Coal mines, placer mines, and rock, sand, and gravel operations, up 16% from 2010.
- ▶ More than **200 placer mines** produced **70,000 ounces** of gold, as well as platinum.
- ▶ **\$80 million in production value** from more than 120 active rock quarries, and sand and gravel operations.
- ▶ Export value of **\$1.3 billion**, or **31%** of Alaska's **total exports** (2010).



Usibelli Coal Mine

Coal

- Alaska's only operating coal mine, exporting half of its production in 2011
- Fuels 40% of Interior Alaska's electricity
- Founded in 1943
- 138 employees in 2011

Greens Creek Mine

Silver, zinc, gold, and lead

- Among the world's top 10 silver producers
- Largest Southeast Alaska for-profit employer, in terms of payroll
- Largest payer of property tax in the City & Borough of Juneau
- Discovered in 1975, producing from 1989 to 1993, and continuously since 1996
- 355 employees in 2011

Red Dog Operations

Zinc, lead, and silver

- One of the world's largest zinc concentrate producers
- Only taxpayer in the Northwest Arctic Borough
- Discovered in 1968, producing since 1989
- 620 employees (including 130 contractors) in 2011

Fort Knox Mine

Gold

- Alaska's largest surface gold mine
- Largest single property taxpayer in the Fairbanks North Star Borough
- Discovered in 1984, producing since 1996
- 500 employees in 2011

Pogo Mine

Gold

- Discovered in 1994, producing since 2006
- 312 full-time employees and 150 full-time contractors in 2011
- Paid more than \$51 million in wages in 2011
- Capital spending exceeded \$11 million in 2011

Kensington

Gold

- 2011 marked the first full year of production
- Expect nearly 90,000 ounces of gold in 2011
- Adding infrastructure to provide long-term, sustainable production
- 230 employees in 2011

Nixon Fork

Gold and copper

- Discovered in 1917, intermittent production since 1920s
- Production suspended in 2007, re-opened in 2011
- 100 jobs in 2011





Chuitna

Coal

- ▶ Currently in the permitting process
- ▶ 300-350 expected production jobs

Wishbone Hill

Coal

- ▶ First mined in 1916
- ▶ Project feasibility study completed in November 2011
- ▶ 75-125 potential production jobs

Donlin Gold

Gold

- ▶ Discovered in 1988, continued exploration since 1995
- ▶ Permitting process expected to start in 2012
- ▶ 87% Calista shareholder hire at its camp operation
- ▶ Up to 1,400 potential production jobs, depending on the production timeline

Livengood

Gold

- ▶ Placer mining began in 1914, lode deposit discovered in 2007
- ▶ Pre-feasibility Study expected by June 2012
- ▶ Approximately 500 potential production jobs

Niblack

Gold, silver, copper, and zinc

- ▶ Ongoing exploration for more than 10 years
- ▶ \$26 million invested since 2009
- ▶ 200-300 potential production jobs

Pebble Project

Copper, gold, and molybdenum

- ▶ Discovered in 1987, ongoing exploration and environmental studies since 2002
- ▶ Over \$400 million invested through 2010
- ▶ 800-1,000 potential production jobs



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▶ Strengthening Local Economies and Communities

Mining companies strengthen Alaska's local economies by employing Alaska residents from more than 120 Alaska communities located in 26 out of 29 Alaska boroughs or census areas. The industry also purchases supplies and services from hundreds of Alaska businesses.

These mining companies are also a significant source of stable revenue for local governments, as well as significant state government revenue. In 2011, Alaska's mining industry paid:

An estimated total of **\$17.2 million to local governments**, including:

- ▶ \$8.9 million in payment in lieu of taxes (PILT) by Red Dog to the Northwest Arctic Borough.
- ▶ \$5.6 million in property taxes paid by Fort Knox to the Fairbanks North Star Borough.
- ▶ \$1.4 million in property taxes paid by Greens Creek to the City and Borough of Juneau.
- ▶ \$1.2 million in property taxes paid by Kensington to the City and Borough of Juneau.
- ▶ Tax payments to other local governments, including Denali Borough, City of Nome and others.
- ▶ Mining industry employees also pay local property and sales taxes.

Mining companies paid an estimated **\$148 million to state government** in royalties, rents, fees, and taxes, up 170% from 2010.

The mining industry also paid **\$70.1 million in other state government-related revenues**, including:

- ▶ \$28 million to the Alaska Railroad Corporation – \$21 million for moving coal and \$7 million for moving sand and gravel.
- ▶ \$41.1 million to Alaska Industrial Development & Export Authority for the use of state-owned facilities (DeLong Mountain Regional Transportation System and Skagway Ore Terminal).



- ▶ \$1.0 million to the Alaska Mental Health Trust for rents and royalty payments, and construction material sales.

▶ Partnering with Alaska Native Corporations

All Alaska Native corporations benefited from mining industry activity – in 7(i) and (j) royalty sharing payments, in jobs for shareholders, or through business partnerships.

- ▶ \$169.9 million in net proceeds from Red Dog Operations to NANA and distributed \$82.0 million to other Alaska Native regional and village corporations.
- ▶ 56% of the 550 year-round jobs at Red Dog are filled by NANA shareholders, including Teck Cominco, NANA Lynden and NANA Management Services jobs.
- ▶ Calista Corporation anticipates \$2 million in royalties and other revenue for mineral agreements, including lode exploration, placer gold production, and construction material sales.
- ▶ Calista shareholders, descendants and spouses predominantly fill the exploration camp jobs at Donlin Gold.

Many Alaska Native corporations have taken the opportunity to develop businesses that serve the mining sector, including: NANA Regional Corporation, Calista Corporation, The Kuskokwim Corporation, Central Council Tlingit & Haida Indian Tribes of Alaska, Goldbelt, Inc., Kake Tribal Corporation, Klukwan, Inc., Prince of Wales Tribal Enterprise Consortium, Iliamna Development Corporation, Pedro Bay Corporation, Alaska Peninsula Corporation, Kijik Corporation, Igiugig Native Corporation, Tenalian Incorporated, and Tyonek Native Corporation.

Every Alaska Native region has some form of mining potential, ranging from gravel operations to gold, silver, copper, nickel, lead, zinc, platinum, tungsten, manganese, rare earth minerals, jade, limestone, and coal deposits. Several Alaska Native corporations, such as NANA Regional Corporation, Calista Corporation, The Aleut Corporation, Sealaska Corporation, CIRI, Doyon Ltd., Ahtna Inc. and Arctic Slope Regional Corporation, are actively evaluating the mining potential in their regions.

Mining Industry Briefing

Alaska Miners Association
Council of Alaska Producers

Joint House/Senate Resources Committees
February 22, 2012



Council of
Alaska Producers

Mining Works for Alaska – 2011

- ▶ Seven producing large mines
- ▶ 30 exploration projects >\$1M
- ▶ >4,500 direct mining jobs
- ▶ \$100,000 average annual wage



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Mining Activity in Alaska



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2011 Operational Milestones

- ▶ New, more efficient mills– Red Dog
- ▶ 5 Moz Strong – Ft. Knox
- ▶ Investment in the future – Pogo
- ▶ Record exports– Usibelli



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2011 Operational Milestones

- ▶ A new beginning – Nixon Fork
- ▶ First full year – Kensington
- ▶ Tails Expansion – Greens Creek



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2011 Development Milestones

- ▶ Feasibility Update – Donlin Gold
- ▶ PA complete – Livengood
- ▶ Environmental Baseline Studies – Pebble



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2011 Development Milestones

- ▶ Partnerships – NANA/Novacopper
- ▶ Increased Resources – Niblack
- ▶ SEIS work continues– Chuitna
- ▶ Feasibility + Permitting– Wishbone Hill



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2011 Exploration Milestones

- ▶ Exploration investment up 13%
- ▶ >60 Exploration projects
- ▶ Juniors lead the way



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2011 REE/Critical Minerals



- ▶ State funding of REE Inventory
- ▶ Ucore investment at Bokan Mountain
- ▶ Alaska strategically poised to be a world leader



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2011 Placer Mining

- ▶ >200 Placer Mines
- ▶ >70,000 Oz Mined



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Challenges

- ▶ High Risk
- ▶ Infrastructure
- ▶ Perceptions



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Opportunities



- ▶ Mineral Potential
- ▶ Rigorous Permitting
- ▶ Public Support
- ▶ Workforce Development



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Vitalizing Alaska's Workforce



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Looking to the Future:



- ▶ Alaska
 - ▶ Potential
 - ▶ Means
 - ▶ Opportunity

- ▶ Mining *will work* for Alaska



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AMA Issues of Concern

- ▶ Integrity of the Permitting System
- ▶ Increased Oil Flow in TAPS
- ▶ Litigation Reform
- ▶ Infrastructure
- ▶ Energy



AMA Permitting Issue – Wetlands

U.S. Army Corps of Engineers – Section 404

- ▶ All activities on all lands
- ▶ >50% of Alaska is classified as wetlands
- ▶ ‘No Net Loss’ is the policy
- ▶ Impacts must be offset
- ▶ Compensatory Mitigation Credits are required



AMA Advocates

Establishing a State mitigation program

Evaluating State primacy over Section 404 wetlands mitigation, permitting, and management

Many states with similar issues have established state run programs

Provide mitigation credits where there are limited options

Developed to address DOT needs, expanded to other permittees



Perspectives

- ▶ Alaska's scale is unique
 - Access to mineral lands is vital
 - Industry is a century old but in its infancy
 - Infrastructure is key limitation
 - Roads to Resources
 - Lines to Mines
 - Uncertainty is the enemy of economic investment
 - Need to continue to strengthen the process



The Economic Impacts of Alaska's Mining Industry

Prepared for:
**Joint Senate and House Resources
Committee**

Prepared by:
McDowell Group, Inc.
Anchorage · Juneau
February 22, 2012



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research & consulting."*

McDowell Group

Presentation Contents

- Overview of Alaska Mining Activity
- Employment and Payroll
- Alaska Resident Employment
- Alaska Spending
- Payments to Local and State Governments
- Benefits to Alaska Native community

Alaska Mining Activity in 2011

- ◆ Exploration

- ◆ \$300 million , up 13% from 2010
- ◆ 60 exploration projects spending more than \$100,000

- ◆ Development

- ◆ \$175 million, down 40% from 2010



Alaska Mining Activity in 2011

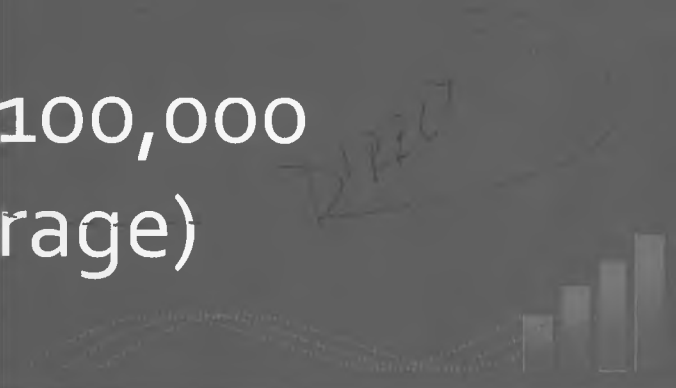
- Production
 - \$3.8 billion in gross mineral production value
 - >200 placer mines
 - >120 active RSG operations
- ◆ Exports of \$1.3 billion (2010) or 31% of AK's exports



Employment and Payroll (2011)



- ◆ 4,500 direct jobs
- ◆ 9,000 total direct and indirect jobs
- ◆ \$620 million in total direct and indirect payroll
- ◆ Average annual wage of \$100,000 (double the statewide average)



Purchases of Goods and Services in Alaska

- Large operating mines spent \$620 million on goods and services
 - \$500 million (or 70% of total) was spent with Alaska businesses
- More than 600 Alaska businesses provided goods and services to Alaska's large mines
- 500 Alaska businesses supported advanced exploration projects



Payments to Local Governments (2011)

\$17.2 million to local governments,
including:

- ◆ \$8.9 million in PILT to NWAB
- ◆ \$5.6 million to FNSB
- ◆ \$2.6 million to CBJ
- ◆ Other payments to Denali Borough
City of Nome, etc.
- ◆ Employees also pay local
property and sales tax



Payments to State Government (2011)

- ◆ \$148 million in royalties, rents, fees, and taxes -- up 170% from 2010
- ◆ Also paid \$70 million in other revenues, including:
 - ◆ \$28 million to Alaska Railroad (coal, sand & gravel)
 - ◆ \$41 million to AIDEA for DeLong Mountain Regional Transportation System & Skagway Ore Terminal use
 - ◆ \$1 million to the Alaska Mental Health Trust



Benefits to Alaska Native Corporations

- ◆ Nearly all Alaska Native corporations benefit from mining
 - ◆ 7(i) and (j) royalty sharing payments
 - ◆ jobs for shareholders and descendants
 - ◆ business partnerships



Benefits to Alaska Native Corporations

- ANC benefits include:
 - \$170 million in net proceeds from Red Dog Operations to NANA, of which \$82 million was distributed to other ANCSA regional and village corporations
 - 56% of the 550 year-round jobs at Red Dog are filled by NANA shareholders
- Every ANCSA region has some form of mining potential

Summary

- Significant source of jobs (9,000 jobs in Alaska)
- Provides high-paying, year-round jobs
- Key source of tax revenue, especially to local governments
- Critical ANC benefits
- Economic benefits spread throughout Alaska

Thank You!

