

AMERICAN MINING AND THE NEW POLITICAL LANDSCAPE

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WYOMING MINING ASSOCIATION

Thanks Marion and thanks to the Wyoming Mining Association for the invitation to join you this afternoon.

I'm especially pleased to see Governor Freudenthal. NMA appreciates the governor's intelligent stewardship of some of the greatest mineral and energy assets found anywhere in the world. It's doubtful whether U.S. Energy Secretary Chu himself has any more influence over the nation's energy resources than does Wyoming's governor.

Speaking of Wyoming, anyone who comes here from the nation's capital to give a speech has to be somewhat suspicious of the welcome he'll get. Former Wyoming Senator Alan Simpson, a beloved figure in these parts – and legendary in D.C. – used to describe Washington as “a stud farm for jackasses.”

I also like Defense Secretary Gates' assessment. He says the reason so many in Washington are lost in thought is because it's unfamiliar territory to them.

I hope these jabs at the city that has given me a living wage for the last thirty years assures you I understand its foibles. I should

also add, it's given me heartburn, poor vision and a number of other infirmities.

Anyway, glad to be here.

There's a saying that if everything is coming your way, you're probably in the wrong lane. That's a fair description of what we've all just been through. This time last year, everything seemed to be going our way: the economy was booming and the mining community had plenty of friends in Washington. Coal and mineral production were topping the charts.

Since then, we've seen an unprecedented reversal. And the speed and scale of the change seems incomprehensible.

So this afternoon, I'd like to talk a bit about the changed environment in which we operate. How are the changed economy and the new political dynamic affecting U.S. mining and the outlook for our priority issues? And finally, how are we—NMA, our members and our sister associations—moving forward to secure our future.

Economic Change

Start with the economy. The fuse that was lit by subprime mortgages and Wall Street derivatives detonated explosions far and wide, extending throughout western mining communities. What is now called the "Great Recession" is a worldwide phenomenon. This year NMA expects coal production to decline

by 8.6 percent from last year's near record 1.2 billion tons. And while gold is obviously benefiting from economic turmoil, global demand for base metals and minerals crashed as China's growth cooled and India's took a breather. The commodities market now appears to be out of intensive care, but not yet out of the hospital.

PriceWaterhouseCoopers observed in its most recent analysis of the worldwide mining industry that the best managed companies were most likely to survive the ongoing turmoil. I'm sure they had all of you in mind when they made that judgment.

Political Change

Meanwhile, equally dramatic changes have occurred in Washington. Some would say the political changes have been just as menacing for mining as the economic ones.

The political ascendance of pro-government policymakers ... together with a prolonged economic crisis ... have tightened Washington's grip on the nation's business, including the mining industry. Meanwhile, the Republican Party today is in near disarray ... barely competitive in the Northeast or on the West Coast and struggling in the Rocky Mountains ... as it redefines its appeal beyond low taxes and less government.

We've seen entire industries propped up with massive federal spending. The financial capital of the country appears to have

moved from New York to Washington. There is some good news here: This time last year you didn't own a car company – now you do.

To help sort through the financial collapse, Washington is hiring scores of economists.

Someone said if you put all the economists end-to-end ... it would be a good thing.

Voters have strengthened Democratic majorities in both houses of the 111th Congress – which is now led by a Senate Majority Leader from Nevada who seldom misses a chance to criticize coal ... and a Speaker of the House who hails from San Francisco, Calif., which was once a hotbed of mining, but not recently.

At the other end of Pennsylvania Avenue, we see President Obama's administration, like his presidency, is a work in progress. Many senior positions with oversight and regulatory responsibilities for our issues have yet to be filled.

That said, we are led by a charismatic president who has appointed green economy advocates to many senior positions in the regulatory agencies. Some of them would like nothing better than to leave Wyoming's enormous fossil energy reserves in the ground ... and to make mining uneconomic in the United States.

Consider the new chairman of the Federal Energy Regulatory Commission, Frank Wellinghoff. Soon after taking his post, he

said wind and solar energy would displace base load power, making further investments in coal and nuclear generation entirely unnecessary. I wrote him a polite letter challenging his breezy dismissal of coal, in particular. He replied later that he was misinterpreted, not misinformed.

The political change in Washington has been most conspicuous on the economic front. Nonetheless, energy and environmental policy are gathering momentum. If the Bush Administration was a GM Hummer, the Obama Administration is a Toyota Prius.

From EPA's decision to block coal permits to the mining law and climate change bills now before Congress, it's plain that investment banks aren't the only ones getting a stress test.

The good news is, if you enjoy challenges, you'll be very happy for the foreseeable future. The federal government has parked its tanks on mining's front lawn.

Stepping back from today's headlines, we see nearly a complete dismantling of the Reagan doctrine that saw government as the problem ... in favor of a doctrine that views government as the solution. This new doctrine is far more sympathetic to the agendas of both the organized environmental movement and to organized labor. Higher regulatory and operating costs for miners are on the horizon.

These aren't strictly partisan developments. Congressional members who represent states rich in coal and mineral resources typically understand our issues regardless of party affiliation. And no state's congressional delegation understands them better than Wyoming's.

The new divide isn't Republican versus Democrat so much as those who appreciate coal and minerals versus those who take them for granted – or see some burgeoning technology as capable of taking their place.

Legislative Challenges

So far, two issues in particular have emerged from this changed landscape that present our industry with major challenges.

The first is mining law reform.

Mining Law Change

Congressman Rahall of West Virginia has again advanced a bill to reform the mining law – a bill that we cannot support. And in the Senate, Energy and Natural Resources Chairman Bingaman of New Mexico has also introduced a similar reform bill. And for similar reasons we cannot support his bill either.

His bill, perhaps inadvertently, would actually increase, not decrease, the uncertainty that hangs over mining operations on federal lands.

His bill, like Congressman's Rahall's ...

- Creates a new and unnecessary mechanism by which federal agencies can arbitrarily withdraw lands from production
- Fails to clarify the size or the means of calculating a royalty or production fee
- Provides no satisfactory alternative to patenting for securing the rights of claimholders
- Directs the Secretaries of Agriculture and Interior to develop a new set of environmental regulations – layering over those already on the books, and
- Institutes an extensive new permitting scheme for exploration activities

It's possible, even likely, that we'll see introduced in the Senate a bill far more to our liking. In the House, Rep. Lamborn of Colorado may introduce such a bill soon – one that can help our industry demonstrate its support for responsible mining law reform.

Climate Change

A second issue of keen interest to us is, of course, climate change. This summer the House will debate a measure co-sponsored by Representative Henry Waxman of California and Ed Markey of Massachusetts that by 2050 would cut greenhouse gas emissions by 83 percent from their 2005 levels.

This is an ambitious goal. It would be achieved by setting a cap on emissions – a cap that would ratchet down over the years – and allow facilities that can get under the cap to sell emissions credits to facilities that can't get under it. NMA does not oppose cap-and-trade as a means of reducing concentrations of greenhouse gases, but we do oppose this approach – and for the same reasons we opposed a similar bill introduced in the Senate last spring.

- First, its cost containment mechanisms are inadequate. In the absence of a safety valve for carbon prices, states that generate most of their electricity from coal and those that mine coal would bear by far the largest costs in higher electricity costs and joblessness.
- Second, the timeline for imposing an emissions cap does not line up with the expected dates for commercial deployment of carbon capture and storage technology. A dash to more expensive gas could be the result.
- Third, funding provided for carbon capture and storage, or "CCS," technology is inadequate. Experts from MIT to the International Energy Agency insist that accelerated deployment of CCS is essential -- without it no real reductions in greenhouse gases are conceivable.
- Fourth, it lacks an effective legal framework to clarify liability issues and provide for the construction and monitoring CO2 storage facilities. This framework will be

critically important for encouraging future investment in CCS technology and even coal based generation.

- Fifth, energy intensive industries such as mineral and metal mining that are exposed to international trade are not adequately protected from higher energy costs. Under this bill those costs would place our industries at a competitive disadvantage in the global market.

For now at least, the longest recession in U.S. post-war history has slowed the march towards congressional approval of this legislation.

Many congressional members from the Rust Belt Midwest and the Intermountain West – Democrats as well as Republicans – are too concerned about further aggravating economic hardship to pass a climate change bill that will jeopardize economic growth ... or allow so-called reform of the mining law to cripple the minerals industry.

The American people share these overriding concerns. Last month, a nationwide Gallup poll found that for the first time in 25 years Americans were more concerned about the economy than the environment. And when the Pew Foundation recently asked Americans to rank 20 major issues – from health care to the war on terror – it found economic issues dominated – global warming ranked dead last. In other words, Americans' concern about their

jobs and their economic future are crowding out their historic interest in all other issues.

While we can tap into these concerns to highlight the benefits of high-paying mining jobs, we cannot take uniform comfort in these results. For some of our issues, there is no way out.

In the case of climate policy, the recent Supreme Court decision trumps external considerations. In that decision, the Environmental Protection Agency was given the green light to regulate greenhouse gas emissions under the Clean Air Act. Everyone from industry to EPA Administrator Jackson agrees the Act is not well-suited to this task. Nonetheless, EPA is moving forward, and will continue to do so until Congress acts.

If you hold that reductions in greenhouse gas emission can avert calamitous changes in the global environment or, turning from the spiritual to the mercenary, if you operate a proposed coal-based utility that cannot get a permit because there is no federal climate policy, this relentless march towards the inevitability of carbon controls is a positive development. If not, this is going to be a painful process.

Regulatory Challenges

While I'm in the painful section of my remarks, we might as well cover the regulatory front. Over the last eight years, many career bureaucrats and—as John McCain always says when he's

really mad at someone—“my friends” in the environmental community, have been working on proposed actions to undo many of the gains mining achieved during the Bush administration.

Last November, they dusted off all those documents and started rolling out their strategy. And they’ve had receptive audiences in the new administration.

The stream buffer zone rule is one example. A product of six years of extensive environmental analysis and public input, this rule clarified practices in use under several administrations. The Interior Department has pulled it back for further review, alleging it fails to provide sufficient protection to downstream water quality.

Coal ash is another regulatory hot spot. Some insist it should be regulated as a hazardous material – despite the absence of scientific evidence to support such a decision ... the higher costs associated with management and storage ... and the damage it would do to the robust market for coal ash byproducts.

Meanwhile, recent reviews of **section 404 coal permits** by a more activist EPA promise to further slow coal production. EPA is proposing new, but as yet unspecified criteria for evaluating up to 200 permits that are stuck in a regulatory black hole. If this is not a moratorium – as EPA insists it is not – then it’s missing a good chance to be one.

A high-level administration team will supposedly devise new criteria for future permit approvals. While this review is currently confined to permits in the Ohio River Valley and Central Appalachia, a policy change would affect all operations needing Section 404 permits.

Also, the administration recently proposed new controls on **fugitive dust** emissions from coal prep plants. We prevailed last year in convincing EPA that its proposed opacity standard for dust plumes wasn't justified by the available data. That apparently didn't discourage EPA from proposing an even tougher standard last month.

Finally, Senator Barrasso and others have pushed for some favorable amendments to a bill that would mandate **renewable fuel standards** for power plants and automobiles. Many experts warn the standards are unrealistic and uneconomic for some regions of the country, and Senator Barrasso's amendment would help that situation.

Not all the news is bad on the regulatory front.

As the nation's biggest uranium producer, Wyoming will benefit from the Nuclear Regulatory Commission's decision last week to standardize the permitting process for **in situ uranium recovery** operations. The NRC reviewed some 700 pages of data our

industry provided to rationalize a time-consuming process and at the same time ensure strong environmental protection.

Continuing on a positive note, the general economic anxiety may have doomed some of organized labor's agenda. The **Employee Free Choice Act**, better known as "card check," has a very limited chance of passage. A provision that effectively eliminates the secret ballot process appears to have doomed the bill for now. A compromise labor-reform bill will be introduced in the near future that will not include this objectionable feature. But other provisions opposed by business and industry – for example, so-called snap elections, mail-in ballots and mandatory arbitration – will ensure our continued opposition.

Hopefully soon, the administration will acknowledge what it should know: It cannot simultaneously revive the economy and the jobs market while destroying high-wage mining and coal-based power generation.

Our task in the mining community will be to clarify this point ... to continue to explain to the 111th Congress and the new Administration that they have a fundamental and inescapable choice – to support mineral and coal production with reasonable policies and be the midwife for economic recovery – or become its undertaker by discouraging the production and use of these valuable materials.

It will take all of us working together to make this point – our member companies and friends like Governor Freudenthal in the mining communities talking to their federal representatives back home ... and our associations and allies talking to them in Washington.

THE NEW OPPOSITION

Clearly in today's political landscape we confront a more coherent, unified opposition to domestic mining.

- It views coal as yesterday's fuel – as a problem to be solved, not a solution to the nation's dependence on foreign energy and rising energy costs.
- It views hard rock mining as an environmental liability rather than a source of high-value commodities and high-wage employment.

These convictions are anchored in a false view of the world – a view that sees the world as beyond resource scarcity – where the need for energy can be solved through conservation and green fuels ... where the U.S. can solve global warming at little cost ... and where green jobs will miraculously spring from a new economy that has little need of metals or fossil fuels.

None of these assumptions is true. And building policies around them will not work.

Global Energy Demand

Look closely at global energy demand. Our own need for electricity is projected to grow by 30 percent over the next couple of decades. It's true that conservation and smart grid technologies can reduce demand, but not enough to halt the growth trend that will be driven by rising populations and energy intensive technologies that demand higher levels of power supply redundancy to guard against collapse of entire systems. The picture is more startling in rapidly developing countries, where the International Energy Agency predicts by 2030 growing use of consumer gadgets like flat screen TVs, cell phones and MP3 players could triple electricity demand.

With the world's largest reserves of coal, we have a fuel that provides an invaluable hedge against rising energy costs that are set by foreign natural gas and oil producers. Some mistakenly believe we're still back in the 1970s, when the U.S. was the world's lone big consumer pitted against OPEC and when China was a net energy exporter.

But China has since become a net energy importer – now taking about 40 percent of the annual increase in world oil production. India is right behind China in drawing down the world's reserves of oil and gas. A nation that ignores this global energy competition – that squanders the optimal use of its most affordable fuel – is delusional.

Global Mineral Demand

These same developing countries are creating a new industrial revolution that for years to come will not only drive global demand for energy but also for metals and minerals – commodities that we have in abundance. For example, China's domestic mineral reserves reportedly can meet demand for fewer than half of 45 strategic minerals it needs. But by 2020, it will have sufficient supplies of only six.

Fueling this demand is the largest migration in human history. Hundreds of millions are fleeing rural poverty to work in cities that will need affordable electricity and infrastructure.

Yesterday's peasants are becoming today's consumers in numbers that dwarf anything in human experience. And as their per capita wealth increases, so will their appetite for cars, electricity, homes, highways and consumer appliances of every description.

These are the unavoidable consequences of economic growth. To environmentalists, India today has an enviable carbon footprint. But the impoverished lifestyle responsible for this low-carbon impact is not enviable to most Indians. From Beijing to Bangalore people naturally aspire to the same comfortable, energy-intensive life we enjoy.

We should remind ourselves that their moral claim to the good life -- to the wonders of civilization made possible by coal and

minerals – is just as strong as our claim to a cleaner environment. And their claims will grow. By mid-century, the world's population will increase by a third, to 9 billion. According to the UN, 1.6 billion people still lack electricity. And since the world will produce the energy and minerals they demand, why not produce them here ... where the environmental safeguards are strongest ... and where high-wage jobs are needed by millions who don't have them?

Minerals and the New Economy

Many of our critics overlook our own growing needs for minerals, falsely believing they will be effortlessly satisfied. This is naïve. The next generation of hybrid vehicles will place more demands on base load electricity – half of which comes from coal.

The average hybrid car needs 75 pounds of copper – and twice the amount of rare earth minerals in a conventional car. One example is lithium, for lithium-ion batteries. Although the U.S. is the world's largest consumer of lithium minerals and the largest producer of value-added lithium products, our reserves of this mineral total only 410,000 tons. By contrast, Bolivia's world leading reserves total 5.4 million tons ... and the Bolivian government is now threatening to nationalize almost half of this supply.

The result, of course, would be higher costs to manufacturers, higher costs to consumers, a less competitive industry and less leverage for U.S. policy in the hemisphere.

Hybrid vehicles just begin to tell the story of the 21st Century demand for minerals.

- Consider national security: the Triton Class nuclear submarine contains 200,000 pounds of copper – it's a wonder it floats.
- A state-of-the-art wind turbine contains 335 tons of steel ... 4.7 tons of copper ... 3 tons of aluminum ... and 2 tons of rare earth minerals.
- Each Boeing 747 contains 120 miles of copper wire and over 4 tons of copper.

Try using a cell phone or laptop computer without metals and minerals – and keep in mind many of these are new uses that barely existed a decade ago.

Coal and Renewable Fuels

The dangers of divorcing policy from the real world are never clearer than in the naïve assumptions about the potential of renewable or supplemental fuels like wind and solar. Against coal's 50 percent share of the electric power market, solar today supplies one-tenth of one percent – wind slightly more than two percent. On a pie chart of U.S. electric generation, renewable fuels are a line, not even a slice. Even if President Obama

succeeds in doubling renewable fuel use in 4 years, it still becomes just a thicker line.

Of course their share will grow – given the subsidies they receive, how can they not? But when we read about the proliferation of renewable fuel plants, keep in mind that a typical solar plant is 60 MW ... and the largest biomass plant is 68 MW – while the average coal power plant is 500 MW and nuclear 800 MW.

Today many consider coal anathema and wind power a panacea. But to add the power equal to a single 1,000 MW gas or coal power plant they'd need 1500 very tall windmills occupying 30,000 acres of land. Clearly, size matters.

Renewable fuels may not even maintain their current share of a growing market for electricity – let alone expand it. Aside from the problems of intermittency and transmission, there is the problem of investment.

The recession that has been tough on coal production has been brutal on renewable energy. Investment in renewable energy worldwide dropped 53 percent in the first quarter of this year from the same period last year. And when growth returns to the world economy, experts now believe any resurgence in renewable energy investment will eventually go to China and India, where

manufacturing costs are low, quality is improving and energy shortages are greatest.

Green Jobs

This leads to the illusion of green jobs. Investment in green technologies will of course create thousands of new jobs. But will government subsidies destroy more jobs than it creates?

Look at Spain, which was proclaimed a global example in green infrastructure investment. The results are poor: Because the government reallocated money away from more efficient investment, Spain destroyed 2.2 jobs for every green job it created. To pay for these subsidies to green jobs, the Spanish government says the average household electricity bill would have to increase by 31 percent.

Cost of Cap & Trade

Finally, there is the claim that cap and trade schemes for reducing CO₂ will cost relatively little, as carbon trading will lead to efficient reductions and the green economy smoothly supplants our fossil fuel economy. Can the transformation of a carbon-based economy be virtually pain free? Can we impose substantial costs on energy-intensive industries such as mineral mining and expect they can compete against foreign operations without such costs?

Not according to the Congressional Budget Office. It estimated a scheme similar to the one now pending in the House would cost the average homeowner between \$700 and \$2200 annually in higher utility bills. And CBO's estimate is not the highest. The liberal Brookings Institution last week estimated that under the Waxman-Markey climate bill, coal production would fall by 40 percent by 2025 and coal sector employment by 44 percent.

And a just-released analysis by Charles River Associates International shows that without a safety valve on the price of carbon and a robust program for international offsets, the coal industry could face a bleak future and household utility bills will certainly be much higher.

By all means let's address climate change as appropriate. But let's not fool ourselves about the cost. Passing legislation this costly in a weak economy would be like throwing a drowning man an anvil. That's why NMA has forcefully argued for deploying carbon capture and storage as the essential technology to mitigate greenhouse gas emissions. Without CCS, we will not reduce emissions without severe economic consequences.

Conclusion

I've given you a brief tour of the new political landscape. Now where does this leave all of us?

First, we can't let others dictate our policy objectives. If mining is to provide affordable energy ... essential minerals ... and remain the economic engine of communities throughout this nation ... then we have business needs that must be met. And these needs do not change just because we find ourselves in a new political environment.

Second, if we want to remain on top, we have to stand up and raise our voice.

When policymakers, politicians and pundits ask: "Why is this country losing high-wage jobs? Why is U.S. manufacturing moving offshore?" we must remind them why ... it's the unavoidable consequence of industrial and environmental policies that penalize coal production and mineral mining. We must remind them that bad policies have bad consequences.

But to make our voice heard in this more hostile political landscape, it's unlikely we can rely on the same tools and strategies. We will need broader industry participation ... we'll need to multiply our voices more than ever by working together.

To deny ourselves the use of our employees, our vendors and all those in the mining supply chain is to play into the hands of our

opponents. Today that is a losing strategy. We can no longer afford idle assets – we have to deploy our full strength for the lift ahead.

We have good tools, but we have to use them. NMA's Act On Line is a powerful tool to marshal grassroots support – provided we use it. We've got to get our people and our allies energized ... get them out of the stands and on to the playing field.

Just as we must change, we must also work for change around us. But the change we want must be pursued in the real world, where lunches are not free ... where wishing doesn't make it so.

This may be harder to achieve in the present political landscape, where we may find ourselves frequently in the bulls eye. If we do, remember what Winston Churchill said: "There's nothing more exhilarating than being shot at and missed."

Thanks for having me here.

