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THE VALUE OF MINING – HIDING IN PLAIN SIGHT

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It's good to be here in Arizona—a major mining state. In fact, it's an ideal vantage point for my topic. Arizona leads the US in copper production—and ranks 2nd in value for US production of minerals and metals.

Mining is also a significant employer here in Arizona– with about 70,000 Arizonans owing their livelihood to mining. And these are high-wage jobs … the kind many states, indeed today many countries, are eager to attract.

I suspect few outside this room know this about Arizona: the home to a world-class industry … a major employer … a vital supplier for consumers and industries. And yet all this goes largely unseen, unrecognized. We're like a stealth industry – our value hiding in plain sight.

In this respect, Arizona could be a metaphor for the U.S. mining industry as a whole.

This brings me to several observations I would like to share with you this afternoon. The long-term fundamentals for our industry are strong---the opportunities immense. The question remains whether American mining will be allowed to perform to its full potential. If Americans today are unaware of the contributions that mining makes to their well-being, then tomorrow they will be awakened by what is unfolding before them globally.

In the near term, the global slowdown is causing the developing world to pause and catch its breath. This will be temporary.

The demand for resources has never been greater in our history.

- Developing countries constitute more than three quarters of global economic growth
- By 2050, they should account for almost 80 percent of global GDP
- Consider that in the space of the last 25 years, China's GDP grew by a factor of 10—it took Great Britain the better part of the 19th Century to grow by a factor of 4.
- But China is only one chapter in the story unfolding—other developing countries have growth and urbanization rates that are equally impressive
- In India, the labor force is estimated to grow by 1 million people a month---for the next 20 Years!

- And there is plenty of head room left. Despite the enormous growth over the past decade, the developing economies' per capita commodity and energy intensities are still just a fraction of the developed world.

So it is clear that resource competition will be fierce. And, according to a recent PWC survey, some 70% of the CEOs in basic and high tech industries identify minerals and metals scarcity as a major threat to their companies' success.

If your company is located in the U.S., should this be a concern? After all, we are endowed with one of the richest mineral resource bases in the world—with an estimated value of $6.2 trillion. And the US Geological Survey tells us that when it comes to copper, silver, zinc and many other key minerals and metals, "what is left to be discovered in the U.S. is almost as much as what has been discovered."

Under our feet is the largest single energy resource in the world. Our coal resources alone contain more energy than the proven oil reserves of the entire Middle East, Russia and Africa combined. Perhaps coal is not a renewable resource, but for all practical purposes it is almost inexhaustible.

So with such a rich mineral potential, why is it then that our domestic mining industry supplies less than half of the mineral needs of our manufacturing sector? Why have we as a nation continued on a thirty-year path becoming more import reliant for our mineral needs?

Clearly we are punching below our weight. We have what our country needs … and what the rest of the world wants desperately in volumes that are unprecedented in human history. So again, the question: Will we perform to our potential?

Part of the answer lies with us and no one else. And part of the answer lies outside our industry, where our control is more limited, yet where we have some influence.

Let's start with what we can control—and that is the welfare of our people. How we manage our business starts with how we protect them.

Our industry finished last year with the lowest fatality and injury rates in the history of U.S. mining. While that may be a milestone we momentarily celebrate, it is not something we should be satisfied with. Mario Longhi, President and COO, US Steel, shared recently with the NMA board of directors the reasons why, when it comes to safety, vigilance must rule every day. First, he said, success breeds complacency and complacency breeds failure. Second, if Zero Harm is our goal, then we must acknowledge that establishing a culture of zero incidents is no accident.

I am hardly qualified to advise you on how to reach the goal of zero harm. But I will offer another tool for your consideration---the National Mining Association's **CORE**Safety framework. **CORE**Safety draws from the systems deployed successfully by mining and other industries globally to drive continuous improvement in safety performance. It is tailored specifically for mining, and it is designed to complement existing systems and to assist those operations lacking a systems approach.

We believe **CORE**Safey can assist any company no matter where they find themselves on the journey to Zero Harm. C**ORE**Safety is increasingly being recognized as a resource for safety and operations personnel to drive improvement in their safety performance.

With mine safety as our first priority today, we can ensure that it is our proudest accomplishment tomorrow.

So much for the factors we can control. Now let me turn now to matters outside our control that will influence our performance.

Start with energy. Virtually every segment of our industry contributes to our energy supply chain. But for the moment, let me speak to coal and uranium, which provide almost two-thirds of our base-load electricity generation.

Here we see a chasm larger than the Grand Canyon between the rhetoric and reality with our public policies. In Washington, as well as state capitals, everyone talks about "all-of-the-above," but few have the courage to walk it. Instead, we find a mixture of state and federal initiatives that on the one hand set aside market shares for politically-picked sources and suppress others that have and will continue serve our nation well.

In the case of uranium that feeds our nuclear power fleet, U.S. production supplies less than 15 percent of our domestic needs. This is not because we lack the resources, but rather due to the absence of supporting policies that will allow us to unlock them.

Case in point---the U.S. Department of the Interior withdrew from future development over one million acres containing some of our richest uranium resources. The scope of this mineral withdrawal is unprecedented. It's also mysterious since it was done despite the agency's own finding that uranium mining did not pose any significant threat.

Perhaps no energy source has received more ink of late than coal. It dominated the Presidential debates, garnered more attention than perhaps we desired from the administration, and remains the subject of unfounded speculation about its demise.

There are more than several buckets of material we need to move before we get to the truth. Let me try in three passes:

First: Coal's centrality to the world's future prosperity is indisputable. It has been the fastest growing energy source over the last decade, and it is destined to surpass oil as the world's primary energy source by next year or the year after. The ongoing build-out of humanity is coal-centric. The infrastructure behind the world's most transformative action—lifting millions from poverty---requires steel, cement and, of course, more electricity as millions more plug into the grid. This will require at least another 1.2 billion tons of coal within five years.

Second: In the U.S., coal faces headwinds from several directions —slow economic growth, unsustainably low natural gas prices and poor public policies. The first two will self-correct. The third—public policy--needs urgent attention. The coal industry does not fear competition from other fuels. But it rightfully concerned about policies that do not allow it to compete.

Take for example recent rules proposed by EPA—they set standards for coal power plants that are beyond the reach of the best available technology today. Instead, they require technology that will not be available commercially for at least another decade.

Now EPA claims that this will not affect the reliability or cost of electricity. It insists that no new coal plants would be built anyway due to low natural gas prices—and that low natural gas prices are also the driver behind the sudden rapid retirement of so many coal plants. Unfortunately—for all Americans— EPA is wrong on both counts. Even an independent study released recently by Duke University confirmed what NMA told EPA two years ago---only nine percent of the nation's coal plants are economically challenged by low natural gas prices. Most of the plant closures are the result of EPA rules. There is a path to improving environmental performance at less cost and risk to our economic success if only EPA would align its policies with the capabilities of the current best- in- class coal technologies.

Third: U.S. coal will stabilize and rebound over the next several years. Despite the likely loss of almost 20 percent of the nation's coal capacity through 2020, coal generation will recover and increase by 15 percent from the 2012 lows. The remaining plants will be larger, more efficient and run at higher capacity factors. Potentially, we see at least 100 million tons of coal returning to the utility market during this time frame. And, the outlook for U.S. coal exports remains bright. The 125 million tons of coal shipped overseas last year is double the amount exported in 2008. With the build out of new port capacity currently underway, we have the potential to double that again. A recent study for NMA found that for every 1 million tons of coal we export, we create and sustain 1,320 high-wage jobs here in the U.S. There's a thought for policymakers serious about jump-starting our economy.

MINERALS

As for our metals and minerals sector, the obstacles that stand in the way of performing to our potential are different—but the results are quite similar. Where energy policy might be characterized as a product of misunderstanding and mischief, our minerals policy is a product of misunderstanding and neglect.

These are dangerous and costly liabilities in today's world. Our minerals sector supplies the materials that are transformed into products responsible for 15 percent of our GDP. As global competition for these minerals becomes fiercer, our nation continues to place more mineral-rich lands off-limits and to make more difficult obtaining the permits and authorizations necessary to explore and develop our mineral wealth.

Consider:

- Half of the public lands where much of our resource lies remains either off-limits or highly restricted for mining. Nonetheless, we empower our agencies to withdraw more lands with minimal consideration of what the cumulative impact means to our future mineral needs.

- While we are blessed with world class mineral resources, we are cursed with a third-world permitting system—one that takes 7-10 years to obtain all authorizations to proceed. The U.S. has the unacceptable distinction of being second-to-none when it comes to having the most inefficient and protracted process – one that is fraught with duplication, overlap and lack of accountability.

Many of our policy makers cannot seem to make the connection between the upstream part of the supply chain and the downstream industries that depend on us. They see resources locked underground but fail to understand that mining capital is free to go wherever returns are greatest. It is hardly coincidental that as our challenges with access and permitting grow, so does our increasing import dependence on key minerals and the continuing deterioration in exploration investments that serve as the future project pipeline.

The lack of urgency here in America stands in sharp contrast with that of other mineral rich nations. Take Canada and Australia for example—two nations that fully understand how an efficient regulatory regime can provide a competitive advantage in the global competition for mining investment. Both countries already have efficient permitting systems—yet remain eager to stay out front. Canada recently enacted reforms called "one-project one review." Australia has established a commission to seek out further streamlining opportunities.

They are preparing to meet the challenges for the new global reality where demand will soar and supplies will become increasingly difficult to obtain.

These are just a few of the more troublesome examples of how public policy is not aligned with our industry's potential to grow our economy and create high-wage employment. For these and other disabling policies we should expect a more thoughtful approach from our elected representatives.

Nonetheless, in this regard, I believe we have made some progress—slowly of course, but hopefully, steadily.

We have had success recently in the courts setting aside several of the more egregious policies that impede our performance. I hope those legal victories will give the administration an opportunity to pause and rethink its approach to energy and mineral policies.

We have also been successful in securing the introduction and advancement of legislation to correct bad policies before they inflict more bad consequences. The House of Representatives Natural Resources Committee reported legislation to streamline the permitting system for metal and mineral mines. The legislation incorporates best practices for coordination among state and federal agencies, reduces duplication and inserts accountability into the process. It assures that valid concerns about environmental protection are fully considered and addressed. At the same time, it will not allow such concerns to serve as an excuse to trap mining projects in a limbo of duplicative, unpredictable and endless review without a decision point.

Similar legislation passed the House of Representatives last year on a bipartisan basis and we expect the same result later this year. Its future will reside in the Senate where we will urge the leadership to give it prompt attention.

This brings us back to Arizona. This great mining state, like the rest of this great mining nation, once recognized the enormous value of its mineral wealth. It's time America re-discovered that value. The world is becoming a far more competitive place. The U.S. faces new rivals that for the first time will challenge our economic supremacy.

There is no doubt that American mining is adequate to the task if we find a willing partner with our government. There is growing awareness that for our nation to succeed, our mining industry needs to be successful.

Now, as you can see, the public policy "ratios" we face are steep. We have a lot a material to move before we can extract the right policies that will enable us to perform to our potential. So, I'm in the right place today. Bring us your shovels, trucks, dozers and plenty of belt line to help us move it. Hopefully, at your next conference in two years, I can return what I borrowed and report that greater opportunities lie ahead for mining here in America.