Statement for the Record
U.S. Department of the Interior
Before the Senate Committee on Energy and Natural Resources
Subcommittee on Public Lands and Forests

July 14, 2004

The Department of the Interior submits the following statement for the hearing record on S. 2317, a bill to reduce the royalty on soda ash production from Federal lands.

S. 2317 would establish a two percent royalty rate to the United States for sodium minerals mined from Federal lands, (a reduction from six or eight percent) on all current and future sodium leases, for a five-year period. In Section 102(9) of the Federal Land Policy and Management Act (FLPMA), Congress declared that the policy of the United States is to obtain fair market value for the use of the public lands, including royalties from sodium production, unless otherwise provided by statute. The Administration believes a two percent royalty is well below fair market value for the resource, and therefore cannot support the bill.

Soda Ash Background

Soda ash is one of several products derived from sodium minerals mined on public lands and is used in many common products, including glass, detergents, and baking soda. The mineral trona is a naturally occurring mixture of sodium carbonate, sodium bicarbonate, and water. Soda ash, or “sodium carbonate,” is refined from trona mined at depths between 800 and 1600 feet below the surface.

The chemical soda ash, is either natural or synthetic. Soda ash can be extracted from natural trona deposits that are mined, or it can be manufactured synthetically. Synthetic soda ash production began in this country in the 1880’s and increased as the demand for soda ash increased. Although soda ash represented only two percent of the total estimated $38 billion U.S. nonfuel mineral industry in 2003, its use in many diversified products contributes substantially to the gross domestic product of the United States, and the industry is a cornerstone of Wyoming’s economy.

In the early 1950s, the modern natural soda ash industry began in the Green River Basin of Wyoming, home of the world’s largest natural deposit of trona. Since then, five soda ash processing facilities have been constructed in Southwest Wyoming. Natural soda ash production from Wyoming, in an open market, is more competitive than synthetic soda ash produced at plants elsewhere in this country and the world.

Soda Ash – Current Production

Currently, the U.S. soda ash industry is made up of four companies in Wyoming operating four plants (a fifth plant is idle); one company in California with one plant; and one plant in Colorado owned by one of the Wyoming producers. The five U.S. producers have a combined annual designed production capacity of 14.5 million tons (16 million short tons). The total estimated value of domestic soda ash produced in 2003 was $750 million.

Ninety percent of the domestic soda ash production occurs in the Green River Basin of Wyoming. Of this, about 44 percent of the production is from Federal lands. The other production in the Basin is on nearby or adjacent State and private lands, which are often in a checkerboard pattern with the Federal lands. Nationwide, the Bureau of Land Management (BLM) estimates that 48 percent of the soda ash production is from Federal lands.

S. 2317

S. 2317 proposes a statutory royalty rate on sodium of two percent. As mentioned, the Department of the Interior believes a two percent royalty rate is below fair market value, which was estimated to be above the current six percent rate. The BLM’s policy, as declared by Congress in FLPMA, has been to obtain fair market value for sodium resources. To implement this policy, in 1995, the BLM completed a market study to examine fair market value in the sodium industry in Wyoming. The study reviewed many comparable state and private leases and found that fair market value in Wyoming appeared to be somewhat higher than the five percent being charged by BLM at that time. As a result of the 1995 study, in February 1996, the BLM determined that the royalty for all then-existing leases would be increased from five to six percent at the lease renewal date. The BLM also determined, based on the study, that the royalty rate for all new leases entered into during or after 1996 would be eight percent. In the Green River Basin, the current sodium royalty rate on most private land is eight percent; five percent on State lands.

The bill also would result in significant revenue loss to both the Federal government and the State of Wyoming. In 2001, (the most current year for which publicly available statistics have been published by the Minerals Management Service), $11.1 million in Federal royalties were collected from soda ash production on public lands in Wyoming. Of that amount, pursuant to the Mineral Leasing Act, 50 percent, or $5.5 million, was distributed to the State of Wyoming, 40 percent went to the Reclamation Fund (a fund created by statute in 1901 for the construction and maintenance of irrigation works and reclamation projects) and 10 percent was distributed in miscellaneous receipts to the U.S. Treasury. The bill's reduction of the royalty from six to two percent for soda ash production would mean that total royalties would be reduced from approximately $11.1 million to approximately $3.7 million – a reduction of $7.4 million in one year. Under the bill's reduced royalty rate, the State of Wyoming's share of the Federal royalties would be reduced to $1.8 million, as compared to $5.5 million in 2001. The United States' share also would be reduced by an equal amount.

It should be noted that most of the soda ash mines in the Green River Basin of Wyoming have both Federal and non-Federal ownership of the mineral rights and are within the Union Pacific Railroad land grant corridor which creates a checkerboard pattern of private and Federal mineral ownership, where a section (1 square mile) of federal ownership is surrounded on four sides by private or state ownership. Many of the lease agreements for the mining of soda ash from the privately-held mineral rights specify that the mining company must mine as much soda ash from private mineral rights as mined from adjoining Federal or State mineral rights. These agreements contain financial penalties that discourage mining more than fifty percent from non-private portions of the mines. Therefore, reductions in the Federal royalty rate will not provide a directly proportional incentive to produce more soda ash from Federal leases.

Conclusion

The Administration cannot support S. 2317 because the bill reduces government receipts and reduces the fee below fair market value.

The Department of the Interior appreciates the opportunity to submit a statement on S.2317 and would welcome further opportunities to discuss the bill and related issues with the Committee. The Department would be pleased to answer any questions the Committee may have for the record.