

July 9, 1965

ADMINISTRATIVE USE ONLY

## Memorandum

To: The Record

From: F. W. Guild  
Chief, Branch of Ferrous MetalsSubject: Meeting in Congressman Blatnik's office re Cu-Ni deposits  
in Minnesota

Subject meeting held July 7, 2:45 p.m., in Room 249 New House Office Building. Present: Congressman John A. Blatnik, 3rd District, Minnesota, his assistant, James Oberstar, Joe Pascal, Mayor of Ely, Minnesota, Henry S. Wingate, Chairman, International Nickel Company (INCO), William F. Kennedy, Secretary, Ross D. Ramstad, Asst. V. P., and Phil Hanft, attorney for the Company, Charles Stoddard, Dir. Bur. Land Management, William Shafer, Chief, Mining Branch, BLM, Tom Cavanaugh, Solicitor's office, J. D. Turner, and F. W. Guild.

After brief opening remarks by the Congressman, Mr. Stoddard explained the position of BLM with respect to time limitations on leases-- 20 year maximum permitted, most shorter. A 50-year lease (as tentatively worked out by INCO about 10 years ago with Asst. Sec'y. Lewis) would lay Bureau (most politically sensitive in the Gov't.) open to charge of favoritism, cause numerous other companies to demand same. Shafer reviewed the rules briefly. Mr. Wingate then outlined the company position. They have (on basis of drilling and other work in mid-50's that cost \$1-1/4 million) found 2 deposits:

1) 200 M tons with 1% combined Cu and Ni, 75% Cu, 25% Ni, minor precious metals (Pt and Pd). Situated as close to river (the Kawishwi, here virtually a lake) that only 2/3 believed extractable.

2) 70 M tons, most can be extracted.

Total mineable (to 2,000 feet) 200 million tons. The ore marginal, the metallurgy will be difficult. Company proposes to invest \$80 M in mine and mill as soon as possible to mine 9 M tons/yr. over period of 21 years, 1, and produce 100 M lbs. Cu, 25 M lbs. Ni annually.

Gross value/yr. Cu at \$0.35 - \$35 M  
Ni at 0.80 - 20 M  
\$55 M



Smelting and refining probably to be done in Canada, ship concentrates in bond, return metal. Only moderate (\$10 M?) increase in capital costs; this exclusive of the \$80 M investment, which would be entirely in Minnesota. It would be out of the question to make this investment unless a firm lease for more than 20 years can be arranged-- many mining properties are held in perpetuity; they have much longer leases in Canada and elsewhere.

This production would help close the U. S. copper supply-requirement gap, add to nickel supply, assist the balance of payments problem, etc. INCO is 50% U. S. owned, this is their major market, they would like to participate productionwise in the U. S. economy.

Mr. Kennedy reviewed the negotiations a decade ago that resulted in a plan for a 50-year lease with increasing rental/acre/yr. (which amounts to a minimum royalty in absence of production) and for a royalty that goes from 4% to 7% of gross market value of production. The company felt a commitment had been made. [Apparently the then Secretary did not agree.] *False JDF*

MM people declared themselves not opposed to development. In any case, leases have always been renewed if active production going on, perhaps subject to renegotiation. This not acceptable to INCO--what would be the policy when this time comes? Can't finance on this basis. MM afraid of setting precedent. I suggested that this the first but surely not last time this situation would occur as it becomes necessary to exploit lower grade, complex ores that will require large capital investment and extensive experience to meet nation's increasing requirements.

Mr. Stoddard agreed in principle to go along with INCO's request and instructed his people to look into ways of safeguarding interests of all concerned. The remainder of the meeting spent in discussing problems--MM fears terms that will permit INCO to hold land without developing it. Repeated references to "production only in 49th year." Needed, a way to guarantee that company will perform. Agreed that renegotiation not a problem, the terms provide for reasonable, fair payments.

If the spirit of agreement reached orally can be realized on paper, a new pattern has evolved. Meeting ended amicably.

Copy to J. D. Turner ✓  
Julian D. Feiss



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
WASHINGTON, D.C. 20242

BLM-A-022697  
BLM-A-024828  
Minnesota

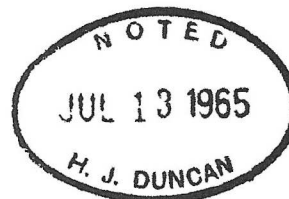
July 12, 1965

Memorandum for the files

Subject: Copper-nickel lease applications of the International Nickel Company (INCO) in the Superior National Forest, Minnesota, BLM-A-022697 and BLM-A-024828 (Minnesota)

A conference was held in Congressman John A. Blatnik's (Minnesota) office, Room 2449, Rayburn Building, at 2:30 p.m., Wednesday, July 7. The conferees present were as follows:

<u>Name</u>	<u>Position</u>
BLATNIK, John A.	Congressman
OVERSTAR, James	Administrative Assistant to Blatnik
WINGATE, Henry	Chairman of the Board of INCO
KENNEDY, W. F.	Secretary of INCO
RAMSTEAD, Dean	Assistant to the President of INCO
HANFP, Phillip	Duluth Attorney
PURCEL, Joseph	Mayor of Ely
TURNER, Joe D.	USGS
GUILD, Phillip	USGS
STODDARD, Charles	BLM
SHAFFER, William	BLM
CATANAUGH, Thomas	SOL



Congressman Blatnik called the meeting to order and stated that he was primarily interested in obtaining employment for more people in Minnesota. However, he recognizes that there are certain obstacles that INCO may have to overcome before investing capital and employing more people.

Then, there followed a lengthy briefing by Messrs. Shafer and Stoddard that the leases only assured production during the 49th lease year, and that it was customary for lessees to obtain production prior to the 5th, 10th, or 15th lease years. Further, Mr. Stoddard stated the Bureau of Land Management was subject to more political pressure than any other agency, and it was necessary for them to do something to demonstrate that they are performing in the best public interest.



However, he further stated that it was not his wishes to cancel the permits, or leases.

Mr. Wingate entered the discussion and stated that if the leases were to be for only 20 years, or less, that the Department could forget about INCO. He further stated that it would take at least a year to get issues cleared that would be acceptable to the Forest Service. Then, a 2000-foot shaft, with additional drilling, would be necessary before they could determine whether a mill should be constructed near the mine, or the ore shipped to Canada, or that the project should be abandoned.

The meeting was concluded with the understanding that INCO would submit a memorandum to the Department, outlining what INCO believed that both parties can defend publicly.

  
J. D. Turner  
Chief, Branch of Mining Operations

cc:

CD

Director's reading file  
Regional Mining Supervisor,  
McAlester, Oklahoma  
Deputy Mining Supervisor,  
Miami, Oklahoma

JDTurner:amg





UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
WASHINGTON, D.C. 20242

Blma 522597  
Minn.

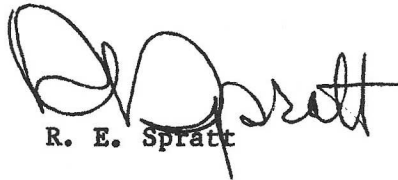
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August 18, 1965

Memorandum

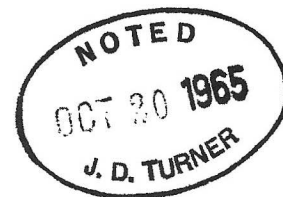
To: Conservation Division Files  
From: Assistant Chief, Conservation Division  
Subject: Phone call from Julian Feiss re meeting with  
International Nickel

Julian Feiss, Staff Geologist, Office of Assistant Secretary-- Mineral Resources, Fred Ferguson, Solicitor's Office, and Edward Steubing, Bureau of Land Management (Bill Shafer's successor) went to Congressman John A. Blatnick's office to confer with a new attorney, Philip M. Hanft of Duluth, and the Assistant Vice President from International Nickel Company, Dean D. Raustad of New York. Bill Shafer also came. Feiss did not realize until the meeting was under way that no one from Survey had been called. Feiss said that the meeting was on a friendly, cooperative basis, and that Inco has agreed to accept the standard lease form, to drop the 50-year development business, and is now wanting to negotiate royalty terms. Feiss said the Survey should be represented before any royalty discussions are held, so we can soon expect Inco to want a meeting but do not know when it will be held.

  
R. E. Spratt

cc: Mr. Duncan  
Mr. Turner

RESpratt:mes



9.22.65

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IN REPLY REFER TO:



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
WASHINGTON, D.C. 20242

BIM-A-022697 ✓  
BIM-A-024828  
Minnesota

Memorandum for the files

Subject: Copper-nickel lease applications of the International Nickel Company (INCO) in the Superior National Forest, Minnesota, BIM-A-022697 and BIM-A-024828 (Minnesota)

A conference was held in the office of Edward L. Stuebing, Acting Chief, Mineral Staff, Room 5549, at 10 a.m., September 22. The conferees present were as follows:

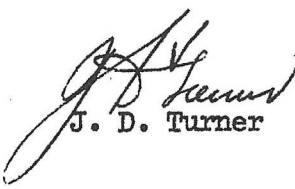
- Edward L. Stuebing - Bureau of Land Management
- Frank Hall - Bureau of Land Management, Mineral Economist
- Thomas J. Cavanaugh - Office of the Solicitor
- J. D. Turner - U.S. Geological Survey
- W. B. Gazdik - U.S. Geological Survey
- James Oberster - Administrative Assistant to Congressman Blatnik

As I understand it, this meeting was held to discuss INCO's proposed modification of acquired land lease Form 4-1100 (September 1962), but INCO's representative was not present, as planned. However, we did have copies of INCO's proposed modification of Form 4-1100.

The original 50-year lease proposed provided for a graduated royalty of 4 percent, 5 percent, and 7½ percent after 25 years. INCO now presents a proposal for a 20-year lease to comply with the requirements of the department.

The royalty section 2(b) of INCO's proposed lease conceivably could be acceptable, except for section 2(b)(ii), . . . "less 5 percent of such amount for each full 0.1 percent that the average grade of ore shipped to the concentrating mill during the period for which the royalty is being computed was less than 2 percent of contained copper and nickel." (5 percent of such amount above means the prevailing royalty rate). The foregoing section in quotes would not be satisfactory for by the time you get to minable grade of 0.7 or 0.8 percent, the royalty would be less than 2 percent of gross value.

The proposal of INCO includes a ceiling of 12 percent on royalty. The writer stated also that the flow<sup>cap</sup> should not be less than 3 percent royalty in any event. If a property cannot operate at a profit, there are other items than a minimum royalty of 3 percent that will preclude production. No one present disagreed and no conclusions were reached. Therefore, it is likely that another conference will be forthcoming.

  
J. D. Turner

cc:  
McAlester  
Miami

Note:

Dinsmore and Bailey - A copy of INCO's proposal is attached for your information, but you need not take it too seriously.

J. B. Turner  
September 22, 1965

Base 0.8% contained cu and ni in mine run ore or mill heads. Increase base royalty 5% of such amount for each full 0.1% increase of contained cu and ni in the ore, averaged per month:

<u>Ore Grade</u>	<u>1st. 10 years</u>	<u>Next 10 years</u>
0.8%	4%	5%
1.0%	4.20	5.25
1.1%	4.40	5.50
1.2%	4.60	5.75
1.3%	4.80	6.00
1.4%	5.00	6.50
1.5%	5.40	6.75
1.6%	5.60	7.00
1.7%	5.80	7.25
1.8%	6.00	7.50
1.9%	6.20	7.75
2.0%	6.40	8.00

J. B. Turner  
September 22, 1965

Base 0.8% contained on and in in mine run ore or mill heads. Increase base regularly 5% of such amount for each full 0.1% increase of contained on and in in the ore, averaged per month:

<u>Ore Grade</u>	<u>1st. 10 yrs.</u>	<u>Next 5 yrs.</u>	<u>Next 5 years</u>
0.8%	3%	4%	5%
0.9%	3.17%	4.20	5.25
1.0%	3.30	4.40	5.50
1.1%	3.45	4.60	5.75
1.2%	3.60	4.80	6.00
1.3%	3.75	5.00	6.25
1.4%	3.90	5.20	6.50
1.5%	4.05	5.40	6.75
1.6%	4.20	5.60	7.00
1.7%	4.35	5.80	7.25
1.8%	4.50	6.00	7.50
1.9%	4.65	6.20	7.75
2.0%	4.80	6.40	8.00

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MIN-1-02847  
MIN-1-02848  
Minnesota

October 1, 1965

**Memorandum**

**To:** Deputy Mining Supervisor, Miami, Oklahoma  
**From:** Chief, Branch of Mining Operations  
**Subject:** Copper-nickel lease applications of the International Nickel Company (INCO) in the Superior National Forest, Minnesota, MIN-1-02847 and MIN-1-02848 (Minnesota)

A conference was held in one of the committee rooms, Rayburn Building, at 10:30 a.m., September 28, 1965. The conferees present were as follows:

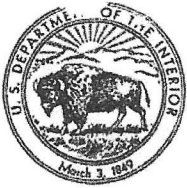
- Edward L. Stuebing - Bureau of Land Management
- James Greveter - Administrative Assistant to Congressman Harkin
- Thomas J. Cavanaugh - Office of the Solicitor
- Paul Hunt - Attorney Duluth, Minnesota
- Don Inwood - International Nickel Company
- Julian V. Feiss - U.S. Geological Survey Office of the Secretary
- J. B. Turner - U.S. Geological Survey

NOTED  
OCT 4 1965  
H. J. DUNCAN

Most of the discussions concerned INCO's proposed modification of lease Form 4-1120, much of which does not conform to the policy of the Department of Interior or is not acceptable to the Solicitor. Finally, we got around to discussing a portion of the royalty section, namely 2(b)(11) and Mr. Inwood stated, in effect, that if INCO relinquished its right to a 30-year lease for a 20-year lease, that they expected a cut in the proposed royalty of 4 and 5 percent by at least 50 percent. His arguments were precise and in detail, but not convincing enough to be of the public interest.

NOTED  
OCT 5 1965  
M. R. GAZDAR





UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT  
WASHINGTON 25, D. C.

IN REPLY REFER TO:

INCO (722b)

OCT 5 1965

Memorandum

To: Assistant Secretary, Mineral Resources  
From: Director, Bureau of Land Management  
Subject: Proposed Preference Right Lease to International Nickel Company, Inc.

The form of the lease to be issued pursuant to the above-referenced applications has been adjusted to the apparent satisfaction of all concerned through re-negotiation with officials of the company, in which representatives of your office, the Solicitor's Office, the Geological Survey and this Bureau participated. The purpose of this re-negotiation was to bring the terms and provisions of the previously-proposed (1954) lease into conformity with the regulations and policies of the Department and to gain the best possible assurance that the company would begin productive operations during the primary term. In this, we believe we have been largely successful.

However, the representatives of the company now contend that the royalty schedule in the earlier lease proposal was unduly high. They wish to see this schedule adjusted as indicated below. The royalty schedule previously agreed to is also listed for purposes of comparison.

<u>1954 Proposal</u>		<u>1965 Proposal (INCO)</u>	
<u>Lease Years</u>	<u>Rate</u>	<u>Lease Years</u>	<u>Rate</u>
1-10	4%	1-20	3%
11-25	5%	21-30	3½%
26-50	7½%	31-40	4%
		41-50	4½%

3 10  
4 10  
5 10  
6 20  
50

In both of these proposals, the royalty rate would be applied to a value at one-third of the market prices of the quantity of fully-refined copper and nickel contained in ores shipped to the concentrating mill.

Insofar as we have been able to determine, the information currently available concerning this deposit does not differ materially from the information known to all the parties at the time the original agreement was reached in 1954. Certainly, there has been no demonstration of a sufficient justification for such a drastic royalty reduction as the company now proposes.

In view of the admittedly low grade of the ore and the consequently low recovery ratio, we would not oppose a reduction in the royalty if such is needed in order to motivate the company to acquire and operate these leases. With this in mind, we submit the following schedule of royalties which we consider to be minimal.

<u>Lease Years</u>	<u>Rate</u>		
1-10	4 - 3%	3 1/2	10
11-20	5 - 4%	4	5
21-30	5%	5	5
31-50	6%		

If you agree that the suggested rates are acceptable to the Department, we will communicate them to the company as a counter proposal.

Apparently, the resolution of the royalty question is the last point of difference between the company and the Department, and the lease can issue once this is resolved.

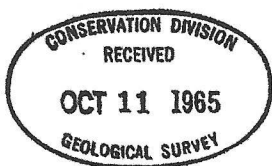
In responding, we would also appreciate your comments with reference to the provision on additional royalty, Section 2(d).

*Charles H. Stoddard*

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UNITED STATES  
DEPARTMENT OF THE INTERIOR  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240



OCT 7 1965

60

Memorandum

To : Director, Geological Survey  
From : Assistant Secretary - Mineral Resources  
Subject: Proposed Preference Right Lease to International Nickel Company, Inc.

The accompanying memorandum has just been received from the Director of the Bureau of Land Management. You will note that on page 2 he proposes a compromise between the 1954 lease royalty proposal and that of 1965, as recently presented by the International Nickel Company, Inc. for the Kawishiwi lands. I assume that you will wish to discuss this with the Conservation Division and get their opinion before we undertake any changes.

*J. Cordell Moore*  
J. Cordell Moore

Enclosure

16 7596

Congress of the United States

House of Representatives

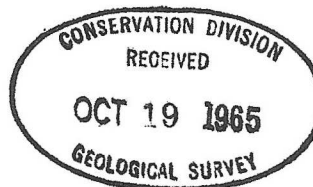
Washington, D.C.

October 14, 1965

8

*MS*  
60

MEMORANDUM



TO: Harold Duncan  
FROM: James L. Oberstar  
SUBJECT: Proposed Department of Interior-Inco Lease

Enclosed is copy of the informal statement prepared by Inco showing the economics of the royalty provision in the current lease proposal and comparing this royalty with taxes and royalties which Inco pays on their Canadian operations in the provinces of Ontario and Manitoba.

After you have reviewed this material, please let me know your thinking, and we can discuss the matter further either over the telephone, or personally here in our office or in your offices.

*James L. Oberstar*  
James L. Oberstar  
Administrative Assistant

JLO/mmg  
Enclosure

167846

93 BLM-A-022697  
Minnesota

October 19, 1965

Memorandum

To: Conservation Division Files  
From: Chief, Conservation Division  
Subject: Congressional contacts

On Thursday, October 14, Mr. James L. Oberstar, office of Congressman John A. Blatnik (Minn.), phoned regarding adjustment of royalty rates downward on International Nickel Company, Inc., 67 Wall Street, New York 5, New York, proposed leases in Minnesota for a 25-year lease instead of a 50-year lease.

Mr. Oberstar said he would send some papers to me.



Chief, Conservation Division

cc:  
Conservation Division  
Director's Reading File  
Desk File (HJD)

HJDuncan/dj

NOTED  
OCT 20 1965  
J. D. TURNER

OCT 26 1965

**Memorandum**

**To: Assistant Secretary, Mineral Resources**

**From: Director, Bureau of Land Management**

**Subject: Proposed Preference Right Leases to International Nickel Company, Inc.**

My memorandum of October 3 described the difficulties encountered in arriving at a mutually acceptable royalty rate. Since we have achieved substantial agreement on the other lease provisions, the royalty problem is the principal obstacle to the issuance of these leases.

Both your office and the Conservation Division of the Geological Survey have been provided with the proposed lease form and other pertinent data. We have now been provided with a draft statement by which INCO attempts to justify its position by comparing the offered royalty with the amounts paid the Provincial Governments from its Canadian operations. Perhaps this justification will be useful to you in your consideration of the proposed rates. If, in your opinion, a rate lower than we suggested in our October 3 memorandum should apply, we are not irrevocably committed to what we proposed as the "minimum" rate in our memorandum.

As you are doubtless aware, Congressman Blatnik is intensely interested in this matter and we have been contacted repeatedly by his office during the past two weeks. Therefore, I am certain that anything which can be done to expedite a royalty determination will be greatly appreciated.

*Charles A. Stoddard*

cc:  
 HW00 1 & 2  
 722 R.F.

722b R.F.  
 721 R.F.  
 HWStoddard

HWStoddard:afk 10/26/65  
 Geological Survey

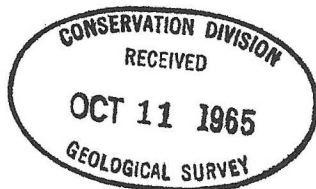


Harold Duncan

I sn't this cart before the horse  
for BLM to be taking the initiative  
re royalty rates. As near as I  
can make out they are picking  
figures out of the blue. I see  
no indication of a justification  
for their suggested rate.

lets discuss a course of  
action

HD



10/14 P.M.  
Call from Blatnick's office  
telling about need to make a deal.  
I said nothing warranted me to OK  
a change over the royalty rates agreed  
to in 1956.

10/14

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
WASHINGTON 25, D. C.

REFERRED BY  
STAFF COORDINATOR,

TO.....  
.....

October 29, 1965

**Memorandum**

**To: Associate Director, Geological Survey**

**From: Chief, Conservation Division**

**Subject: Proposed preference right lease to International  
Nichol Company, Inc.**

Assistant Secretary Moore by memorandum dated October 7 requested an opinion on the proposed change in royalty rates to be made applicable to two consolidated preference right nickel-copper leases for lands in Twp. 61 and 62 N., and Rgs. 10, 11 and 12 W., St. Louis and Lake Counties, Minnesota.

The Federal lands involved originally covered several prospecting permits, some in the name of International Nichol and many obtained by International through purchase from individual permittees or by executing operating agreements. Eventually the several permits were combined into groups of two leases, the North lease, MN-A-030141 covering ten prospecting permits for 2,326 acres, and the South lease, MN-A-022697 covering seven permits for 2,612 acres.

The leases, if issued, will be outside the Superior Baseline area and have large areas of fee lands interspersed. Some of the prospecting permits were issued in 1951.

By memorandum of May 11, 1956, we reported to the Bureau of Land Management that 36 core holes had been drilled and records indicated nickel and copper of less than 1 percent.

International was well aware of the low mineral value per ton of ore and even in 1954, used a \$7 per ton value.

In considering the terms and conditions to be inserted into the lease, the minimum rentals and royalty rates were the subject of many long discussions between department and company representatives, many of which were attended by representatives from the Forest Service. Where could we find a fee land nickel lease or a precedent for consideration nor could International supply

lease contracts--for it owned its deposits by purchase, or option to purchase, as do most mining companies operating in other countries and in most areas of the United States. Therefore, the royalty rates finalized in 1956 represented the best considered judgment of all parties concerned and I am not aware of any reason to change at this time.

One primary point of contention was the lease term. The regular lease provides for establishing a royalty for a period of 10 years with the right of renewal for 10 year periods thereafter, but on such terms and conditions as may be prescribed by the Secretary at each renewal date. International was unwilling to accept any such limited term for fixed royalties because of the large investment needed to get into operation. Thus, the term of 30 years and the fixed royalty rate for the entire term of 4 percent for 10 years, 5 percent for the next 15 years and 7 1/2 percent for the next 25 years.

All these terms were approved by the secretariat. Other favorable terms to International agreed to in the Department were the combining of the many permits into two leases thereby reducing 17 independent permit or lease obligations into two contracts. This combination permitted better planning of underground mine development and eliminated unnecessary property line protection provisions.

Following our recommendations of May 11, 1956, representatives of the Quebec-Superior International Pease Memorial Forest met with International, Interior and Forest Service representatives urging restrictions limiting structures and facilities on the leased land and that the ore concentration plant be located a substantial distance from "the edge of the headless area and from areas having recreational values." Of course, International could not accept such suggestions without further study as in previous conferences the plan of operations for mining favored the return of the tailings to the mine to prevent surface subsidence as mining would be along and under a river. Any requirement to haul ore 8 to 10 miles and return the tailings to the mine would increase costs materially.

Thereafter, the actual issuance of the two preference leases has been, and remains, suspended by Departmental approval.

I quote from a memorandum dated June 18, 1959, in the files from the Deputy Mining Supervisor which indicates the government frowned

on issuance of leases until a critical need for a supply of copper and nickel exists.

"On Saturday, June 6, 1938, in Ely, Minnesota, the writer and Binmore interviewed several persons concerning International Nickel Company's activities in the area.

"The records show that the last prospecting on permit land was done in the fall of 1937. Since that time they have not had a Geologist in the area. It is not known when any more work will be done on the permits.

"The Better Business Committee of Ely had written to their Congressman concerning pending leases to Inco. They had copies of letters from the Congressman, Department of the Interior and Department of Agriculture. For practical purposes the letters stated that the leases would not be issued until there was a critical need for a supply of copper and nickel in this country."

Now, it appears the question of a "critical need for copper and nickel" no longer governs but instead the local economic situation.

Demands have been made on International to begin mining to relieve unemployment in the Ely area.

Apparently, International has insisted on a greatly reduced royalty if it considered a 20-year fixed term lease and presumably the usual conditions for renewal without fixed royalty terms. In other words, we are back where we started in 1934 on terms and a demand by the Company for concessions if less than a 30-year term is demanded by the Department.

I have seen nothing in the files to warrant a reduced royalty rate suggested by International of 3 percent for 20 years, 3½ percent for 10 years, 4 percent for 10 years and 4½ percent for 10 years. Likewise, I find little justification for the reduction proposed by the Bureau of Land Management of 3, 4, and 5 percent for three 10 year periods and 6 percent for the last 20 years of a 30-year period.

I question any new mining within the foreseeable future although more some drilling may take place. Inco is developing new sources of higher grade nickel ore in Canada and other

countries and there is, I am informed, a large stock pile of nickel in the United States.

One might very well raise the question "Why develop the only source of nickel in the U. S. at this time?"

For your information 25 percent of the income is returned to the State for public roads and schools in the county in which the leases are situated and 10 percent is used for construction of roads and trails in national forests in the State.

I would be glad to discuss the Inco and Bureau of Land Management proposals with you, if necessary.



Chief, Conservation Division

cc: ✓ Conservation Division File  
Desk File (HJD)

HJDuncan/fwq



12

DRAFT  
A. Bailey:amg  
November 3, 1965

Memorandum for the Files

Subject: International Nickel Company's pending lease applications  
in Minnesota

A complete review has been made of all information available on  
subject matter.

In April 1965, a report from the field shows a rough estimate of ore  
reserves as follows:

1. On North lease, 4 drill holes indicate about [redacted]  
ore averaging [redacted]
2. On the South lease, [redacted]

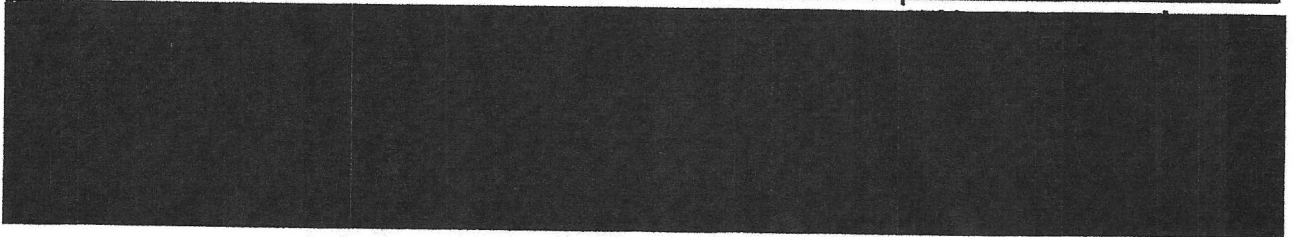
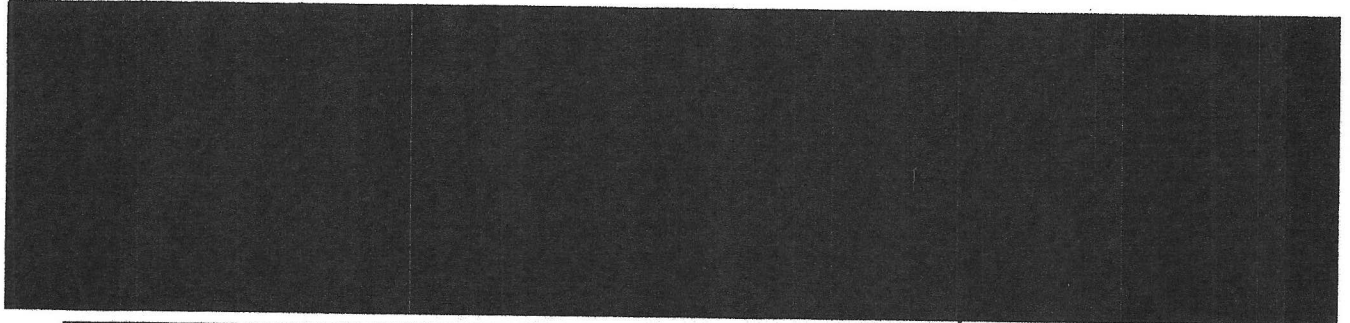
For purpose of calculating royalty value, royalty cost and profit,  
the South lease is used.

[redacted]

[redacted]

8

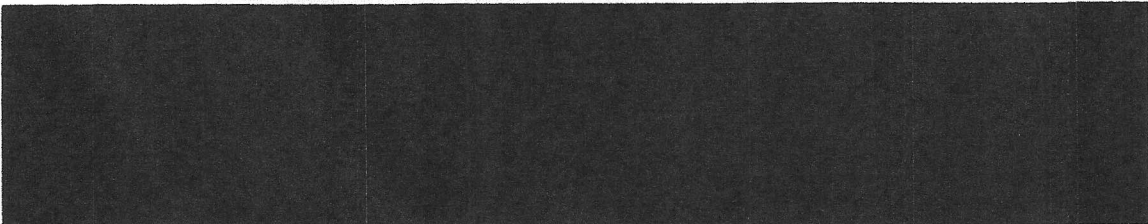
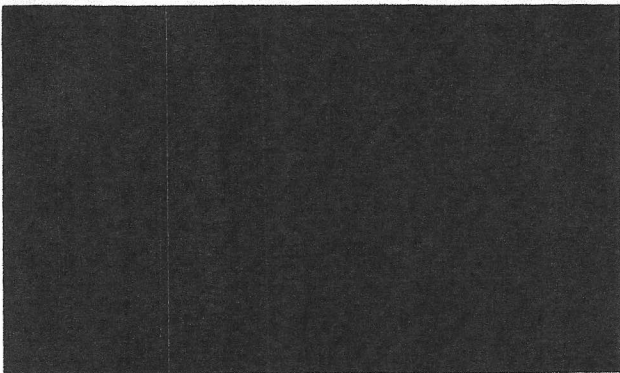
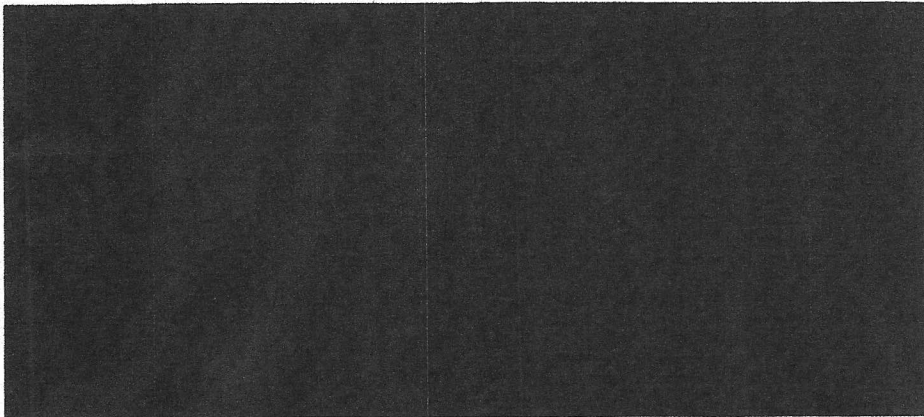
Below is a comparison of royalty per ton of crude ore based on established rate and proposals by BLM and INCO:



Since the INCO royalty is based on value at mouth of mine, they would have a royalty advantage of about 1% over which they would have if the royalty were based on concentrate.

On our Missouri lead and zinc leases, we have royalties set up for 20 years.

At 10 years at 4%, 5 years at 4½% and 5 years at 5% under these leases the gross value is placed on concentrates, but if they were on value at the mine mouth they would be equivalent to about 1% less.



Out of this, they will have to pay Government royalty overriding royalty, state taxes and royalty taxes and Federal taxes.

Not being a tax expert, I would not make an estimate of these taxes, but a guess of \_\_\_\_\_ per ton of crude ore would be 14¢ State occupation tax royalty taxes 2½%, Federal Income tax 20¢ out of the \$1.05 tax would come <sup>to</sup> the following cost:

[REDACTED]

It is expected at the planned production and amortizing the invested \$1 that the investment would be paid off in 15 - 20 years. The only increase would be that royalty would increase with a respective increase in royalty taxes, also, that after investment was amortized and more profits available that the income taxes would increase some.

The longyear agreement on the South lease provides for an overriding royalty of  $\frac{1}{2}$  that paid to the Government plus a minimum royalty of \$1.25 per acre for each  $\frac{1}{2}$  year after date is approved. For each 1% decrease in the royalty rate the Government would lose 2.93¢ for each tone of crude ore mined and the averride would be decreased 50% or 1.46¢ per ton.

[REDACTED]

per ton of crude ore mined for each 1% the royalty is reduced.

I also find nothing in the record that indicates that the land might contain a combined [REDACTED] In 1954, when the royalty rate was negotiated from information available, considerable time

was spent working out a royalty rate in 1954 that would be fair to Government and lessee. Just because ELM has reneged on the 50-year lease, I see no reason for reducing the royalty rate about 50%. If a few cents per ton is going to make the difference in operating the land, or not, maybe this is not the time to start.

13 *Final report*

November 30, 1965

**Memorandum**

**To: Director, Geological Survey**

**From: Chief, Conservation Division**

**Subject: Suspended Inco Copper-Nickel leases BLM-A-022697 and 030141 in Superior National Forest, Minnesota**

At our conference Tuesday afternoon, November 23, you requested additional information and recommendations in connection with leasing of nickel and copper deposits in the Superior National Forest area, Minnesota, by the International Nickel Company hereafter called Inco.

In my memorandum of October 29, page 3, penultimate paragraph, you will note the following language:

"I have seen nothing in the files to warrant a reduced royalty rate suggested by International of 3 percent for 20 years, 3½ percent for 10 years, 4 percent for 10 years and 4½ percent for 10 years. Likewise, I find little justification for the reduction proposed by the Bureau of Land Management of 3, 4, and 5 percent for three 10 year periods and 6 percent for the last 20 years of a 50-year period."

This paragraph did not approve Inco's or BLM's suggested royalty rates. As of then and as of now I have seen nothing convincing to change my thinking on the rates established in the March 1954 lease and agreed to after much discussion between Interior, Agriculture, and Inco representatives. This lease form was transmitted to Inco by letter dated April 20, 1954, signed by Orme Lewis acting as Secretary of the Interior. Both are enclosed for your reference. Inco accepted the lease form by letter of March 27, 1956, attached to Interior letter dated April 29, 1954. Any change at this time will require consent of the Forest Service. It had agreed to the 50-year term.

NOTEL  
DEC 1 - 1965  
GAZDIN



Prior to agreeing to the leases, the 17 permits were combined into separate North and South leases. The North lease BIM-A-030141 includes 10 permits containing 2,326 acres and the South lease BIM-A-022697 includes 7 permits for 2,612 acres both extending along the gabbro-granite contact for 10 miles. These two leases are interspersed with fee and state lands between, within and surrounding the Federal acreage. I estimate in this limited area shown on the attached map that there are at least 1,000 acres of state land in which the State of Minnesota is presumed to control the minerals. Fee lands and other permits amount to 2,000 acres or more.

We do not know exactly what the assignment or contract terms are for the 17 permits making up the two leases but we do know that some carry an override, probably one half of the Federal rate of royalty. The 1954 lease form offered Inco contains a provision that the lessee cannot create overrides in excess of one half of the Federal rate of royalty. However, the lessee or assignee could make other types of cash payment. Consequently, Inco will probably pay a minimum gross royalty on some acreage for the first 10 years of 6 percent (Federal 4--Override 2). Of course overrides will increase as the base royalty is increased.

Inco is free to deal and set its own terms but the override is limited by the lease terms.

I was wrong in our discussion the 23rd that the permit carried no rental. It does provide for a rate of 25 cents an acre each year and it is presumed that Inco will pay this rate prior to issuance of the leases.

#### **RENTAL**

The proposed lease form 4-1100 March 1954 provides in section 2(a) for a rental rate of 25 cents an acre for the first year, 50 cents an acre for the second and third years and a dollar for the fourth to the tenth years inclusive.

#### **MINIMUM ROYALTY**

The lease provides in section 2(c) for a minimum royalty of \$5 an acre payable each year for the 11th through the 25th year, and beginning the 26th through the 50th year a minimum royalty of \$10 per acre each year. If there is no production within any

year on a particular lease, there is no credit on the minimum royalty for that lease.

The lease provides in section 7(e) that under a National Emergency the Government can call upon the lessee to operate the lease if economically feasible and assures the lessee a reasonable profit on the operation. The lessee may call on the Government to advance funds in respect to mine development.

### ROYALTY RATES

The royalty rates shown in section 2(b) of the lease require 4 percent for 10 years, 5 percent for the next 15 years, 7½ percent for the next 25 years, however, under the leases two-thirds of the value is allowed before computing the royalty. Realistically stated, the company is allowed this two-thirds for the cost of concentrating and preparation of ore for market. The royalty is based on value at the mouth of the mine which provides for a one percent advantage over that which would apply if the royalty were based on concentrate. *about 90%*

It has been estimated by our mining engineer supervising this area that the four core holes drilled on the North lease indicated 98,000,000 tons of ore in 45 acres averaging .65 percent copper and .23 percent nickel. In the South lease 17 holes drilled indicated 260,000,000 tons of ore averaging .68 percent copper and .26 percent nickel in 285 acres. (See attached map for the two areas.)

I am not informed of the last offer made by Inco in response to the demand of Interior to change the terms. I have not met with any of Inco representatives or Congressman Blatnik's administrative assistant. But I am of the opinion that promises to do work in substantial amounts may be conjectural. As I understand the present dilemma, BLM advised Inco that the 1954 lease term would have to be changed to 20 years with the right of extension for 10-year periods on such terms and conditions as agreed to at the time of extension but no firm royalty after 20 years. Inco countered with a change in royalty rates. Now, BLM has offered firm royalty rates for 50 years, the same 50 years as in the 1954 lease and, in so doing, has reduced the rate of royalty. I find no compelling reason to do so, no written program of prospecting work and little assurance that operations will begin in 10 years. If the leases had issued in 1956 we would receive \$5 an acre per year minimum royalty beginning in 1966 or \$37,566. About \$25,000 in rentals has been lost.

In other words, without a written promise by Inco to do work and without a firm commitment what does the Department gain at this point by reducing the royalty rates established after long and tedious arguments by Inco?

You ask for my suggestions on how to settle the issue. Inasmuch as Inco and the Department accepted the 1954 lease terms and conditions and the actual lease issuance has been suspended since 1956, I recommend that the Department give Inco 30 or 60 days to execute the North and South lease forms or either one. This will put Inco "on the spot." Having spent \$1,300,000 in the area, and still showing interest, it seems logical that Inco will accept the 1954 royalty rates. If, however, Inco should refuse to sign the lease forms and still asks for a concession, I would recommend before negotiating further that the Department request Inco to first furnish authentic detailed information on all the Federal, fee and state permits and leases that it proposes to hold or operate showing the basic royalty rate and overriding royalty rate and the costs of acquisition in order to compare with the terms of the March 1954 Federal lease offer. Especially, would I insist on the leasing conditions for the state lands to be submitted for review.

I would not be surprised if the state might have said that it would issue leases at rates similar to the Government royalty rates. If the Department must control the time to commence mining operations and Inco is unwilling to accept the North and South 1954 leases as proposed and concessions are made in the royalty rates, I would recommend the lease forms be further modified by adding a condition in each that failure to start mining operations within 10 years or to secure approval for extension of that period would be cause for termination of one of the leases. Since I do not believe that large scale mining operations will take place before 10 years, I would "dicker" for this maximum period of time to start mining. It is interesting to note, in comparing the 1954 royalty terms for the period from the 21st year to the 25th year inclusive, that the 5 percent royalty is the same as the BLM offer.

If a few cents (2.4 cents per ton for 10 years) per ton will make the difference in operating the land or not operating, why lease?

I do not recommend action to change the rate of royalty as requested by Inco or as proposed by BLM.



Chief, Conservation Division

Enclosures

HJDuncan/fwq 11/30/65

4

cc: Mining Office-McAlester  
Mining Office-Miami

BLM-A-022697

BLM-A-030141

Conservation Division ~~File~~

ES-01353

IN REPLY REFER TO:



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
WASHINGTON 25, D. C.

14

Memorandum

To: Secretary of the Interior  
Through: Assistant Secretary--Mineral Resources

From: Director, Geological Survey

Subject: Congressman John A. Blatnik may telephone the Secretary

Congressman John A. Blatnik of Minnesota, who has done an admirable job of vitalizing the taconite mining industry in Minnesota, has been trying to act as a catalyst in getting INCO (International Nickel Company) to take up its Federal leases and create a copper-nickel mine operation about 10 miles southeast of Ely, Lake County, Minnesota.

In 1954-56 negotiations between our Conservation Division specialists and INCO representatives resulted in a mutually acceptable lease arrangement, with option for lease continuing since 1956. The lease term is 50 years with royalty provisions based on one third of the "gross value" (specifically defined) as follows:

	4% for 10 years	10 @ 4%	
50 @ 6%	5% for 15 years	10 @ 4 1/2%	50 @ 5.5%
	7 1/2% for 25 years	10 @ 5%	
		10 @ 6%	
		10 @ 7%	

In recent months INCO requested a reduction of the agreed-upon royalty rates prior to issuance of the lease. Its position is being strongly supported by the Congressman under the impression, perhaps correct, that if INCO gets its terms it will commence operations immediately.

We have made a thorough restudy of the problem and see no compelling technical or economic factors justifying a reduction of the original royalty terms. We recommend the lease be offered on the basis of the original royalty rates. If some special inducement needs to be created, the public interest should be protected by insertion of a "performance" clause for development and production. With acceptance

of the recommended royalty rates a "reentry" clause for royalty adjustment might be introduced permitting reevaluation and lowering of the royalty rates if justified after some operating experience.

The basic issue revolves around a value judgment as to how much profit is fair and reasonable or desirable for a mining company. The present disparity is measured only in a few pennies per ton. It should be kept in mind that 25 percent of all income is returned to the State for public roads and schools in the county in which the leases are situated and 10 percent for construction of roads and trails in national forests in the State.

I cannot in good conscience in the best public interest recommend revising in favor of BMS either the "gross value" factor or the royalty percentage figures.

Mr. J. L. Oberstar, representing the Congressman in recent discussions, said he would ask Congressman Blatnik to telephone the Secretary about this problem.

*W. T. Pecora*

W. T. Pecora  
Director

cc:  
MGS General Files  
Director's Chron.  
Conservation Div. Files  
Assistant Sec--MR 2 ✓  
Desk File (HJD)  
Desk File (Mining)

W. T. Pecora/dj 1-10-66

14  
1/30/66

MAJOR CHANGES IN INCO PROPOSED LEASES

	<u>Old - 1954</u>	<u>New 10/1/65</u>
<b>Terms</b>	50 years	20-yr. - 10-yr. renewals
<b>Royalty</b>	1st 10 yr. 4% 15 yr. 5% 25 yr. 7½%	20 yr. - 3% 10 yr. - 3.5% 10 yr. - 4.0% 10 yr. - 4.5%
<b>Rent</b>	25¢ 1st yr. 50¢ 2nd 3rd yrs. \$1.00 4th - 10 yr.	\$1.00 until production commences
<b>Minimum Royalty</b>	None - 1st 10 yr. \$5.00 11 - 25 yr. \$10.00 26 - 50 yr.	None - 1st 10 yr. \$5.00 - 11 - 20 yr. \$10.00 - 21 - 50 yr.
<b>Additional Royalty</b>	None - 1st 10 yr. 0.3% of gross value of minerals. Add 1% if gross value of associated minerals exceeds 20% of Cu-N value. Rate investigated 25th year.	None - 1st 10 yr. Same except at request of either party rate to be investigated if value of associated exceeds 30% of aggregate metal value.
<b>Overriding Royalty</b>	Not to exceed 1/2 Federal royalty	Not to exceed 1% of gross value.
<b>Renewal</b>	Terms readjusted 20-yr. periods after 1st 50-yr. term	Right to 3 successive 10-yr. terms after primary 20 yrs. with no change in terms unless not in production the 1st 20-yr. term on either one lease or the other. Secretary may grant extension of time to commence production.
<b>Monopoly and Fair Price Clause</b>	In	Out
<b>National Emergency Clause</b>	In	Out

ES-01352

15

COMMITTEE ON PUBLIC WORKS  
HOUSE OF REPRESENTATIVES, U.S.

February 28, 1966

Bill:

Enclosed is the BLM info  
on the INCO lease which I discussed  
with you this afternoon.

Jim Oberstar



E. W. Stuebeling  
Draft

BACKGROUND

The lands applied for include both public domain and acquired lands of the United States and are located within the Superior National Forest of northern Minnesota, outside the borders of the Boundary Waters Canoe Area. Because the General Mining Law of 1872 had no application in Minnesota, the minerals on the public lands in the area were not available until enactment of special legislation in 1950 which authorized the leasing of minerals. Authority to lease minerals in the acquired land had vested in the Secretary of the Interior pursuant to Section 402 of Reorganization Plan No. 3 of 1946.

After passage of the June 30, 1950 legislation (64 Stat. 311; 16 U.S.C. 508(b)), a number of prospecting permits were issued to various firms and individuals through the Bureau of Land Management. These included lands both inside and outside the area now identified as the Boundary Waters Canoe Area. Some of these two-year prospecting permits were issued to International Nickel Company (INCO).

The pertinent regulations authorize the issuance of prospecting permits under which exploratory operations may be conducted on the permit lands. As a reward for discovery of a valuable deposit of minerals, the permittee is entitled to apply for a preference right



mining lease. Permits are currently issued for 2-year terms with the right to a single 2-year renewal, although prior to August 1955, such permits were issued for a period of one year and were renewable annually by payment of rentals. All the permits in the INCO group, under consideration, were issued circa 1951-52.

In addition to the prospecting permits held in its own name, the company also held mineral interests in private lands in the same area and it also anticipated the acquisition of other outstanding Federal prospecting permits there, by assignment from the permittees.

However, in advance of undertaking the extensive exploration program then contemplated, the company wished to have an understanding with the Department as to the terms of the preference right lease which would be issued if its exploratory activities were successful. The estimated cost of this exploratory effort was set at \$2,000,000.

To avoid blindly committing the company to this kind of an expenditure without some foreknowledge of the rental and royalty rates and other lease terms that would govern eventual production, International Nickel Company representatives requested a conference to ascertain in advance what the lease terms would be, if issued.

Over a period from 1952 to 1954, a series of conferences on this subject were held with representatives of Interior's Solicitor's staff, the Bureau of Land Management, Geological Survey, Office of Defense Minerals, Defense Minerals Exploration Administration and the Forest Service. As the consequences of these discussions, a draft form of

of the proposed lease was written and revised several times.

These discussions were not well-documented by the files now available, nor are any of the preliminary drafts of the leases contained therein. However, on August 14, 1953, the company submitted a draft of a proposed lease to the Administrator, Bureau of Land Management. Certain changes were made and the proposed lease form was transmitted to the company by Assistant Secretary Orme Lewis' letter of April 29, 1954. In this letter, Assistant Secretary Lewis committed the Bureau of Land Management to issue mineral leases in this form upon INCO's application made prior to January 1, 1959; On March 27, 1956, the company filed its two lease applications. These are commonly referred to as the "North Lease" (BLM A-024828), covering some 2,300 acres, and the "South Lease" (BLM A-022697), embracing some 2,750 acres.

These lease applications were supported by drilling logs, assay reports and other indicia of the geology sufficient to satisfy the Geological Survey that a commercial ore body had in fact been discovered by INCO, entitling it to receive preference-right leases. The evidence indicates that the ore has an average grade of one percent contained copper and nickel of which approximately .75% is copper and approximately .25% is nickel.

The record indicates that a series of articles was published in the Washington Post and Times Herald beginning January 8 through January 16 of 1956, in which the administration was charged with

giveaways. Senator Goldwater undertook to respond to these charges, and in so doing, he made a rather detailed summary of the contacts between the reporter, Warren Unna, and representatives of the Department of the Interior. This appears in the Congressional Record for February 29, 1956, at pages 3541-3546 (Vol. 102, Part 3).

The May 1956 edition of Harper's Magazine featured an article by Warren Unna entitled "Republican Giveaways" in which some sixteen specific instances of action contrary to the public interests were attributed to the Eisenhower Administration. One of the examples cited was the "fifty-year lease" agreement made by Orme Lewis with INCO covering "12,000 acres." Apparently, this article was similar, if not identical, to the material published earlier in the newspaper.

On May 24, 1956, Mr. Stewart L. Udall, then a Member of Congress, invited attention to the Harper's article which he had inserted in the Congressional Record for that date at page A-4177 (Vol. 102, Part 17).

On June 3, 1956, Mr. Lee Metcalf, then in the House of Representatives, made specific reference to the portion of Harper's article which dealt with the proposed INCO leases. He also published the text of a letter which he addressed to Secretary Seaton on the subject, in which he asked a number of specific questions. (Congressional Record - Vol. 102 - Part 17; page A-4473).

Secretary Seaton made a detailed point-by-point response in his letter dated July 19, 1956. However, we have been unable to ascertain whether this letter was published in the Congressional Record, as promised by Mr. Metcalf.

According to a resume' in the files, in October 1957 Secretary Seaton advised the International Nickel Company that he did not intend to approve the issuance of these leases but that the company could maintain the applications in status quo if it wished to do so. However, we have not been able to document this beyond incidental allusions to this effect in other memoranda. The file indicates that this accord was reached at a meeting between INCO representatives and Secretary Seaton on October 30, 1956. Pursuant to this understanding, INCO has regularly renewed the prospecting permits covering the affected lands and thereby maintained its preferential right to receive a lease.

New attention was focused on the matter early in 1963 as the result of a joint policy on the area developed through an exchange of correspondence between Secretaries Freeman and Udall, whereby mineral activity is to be curtailed within the Boundary Waters Canoe Area and encouraged within the Superior National Forest, outside the limits of the B.W.C.A. In acting to implement this policy, Director Stoddard ordered a review of all pending minerals cases in the area.

At about this same time, Director Stoddard was contacted by Congressman Blatnik, in whose district the land lies. Mr. Blatnik had been approached by a delegation from the town of Ely, headed by its Mayor. These people, concerned by a long history of persistent unemployment and a deteriorating economic situation, wanted to see INCO undertake the commercial development of the ore body. The area's

economy is mining oriented and the past and predicted closings of the iron and tachenite mines in the vicinity poses a serious problem.

Mr. Blatnik arranged for a meeting on July 9, 1965. Present were: Congressman Blatnik; his assistant James Oberstar; the Mayor of Ely, Joe Purcel; Henry Wingate (Chairman of INCO); William F. Kennedy (Secretary of INCO); Dean Bamstead (Assistant Vice President, INCO); Phil Hanft (a private attorney retained by INCO); Charles Stoddard (Director, BLM); Tom Cavanaugh (Solicitor's Office); P. W. Guild (Chief, Branch of Ferrous Metals, Geological Survey). Mr. Stoddard and Mr. Shafer expressed concern for the fact that the lease form approved by Assistant Secretary Lewis in 1954 did not conform to the regulations, nor did it offer adequate assurance that Federal and local objectives would be met. Particularly objectionable to the Bureau of Land Management was the fact that there was no meaningful requirement for production during the fifty-year primary term. The INCO officials took the position that the Department was obligated to issue the lease in the form approved in 1954, but stated that perhaps agreement could be reached through adjustment of the lease terms.

Following the meeting, Mr. Stoddard ordered a staff study of the lease to be performed by the BLM Mining Staff and he also requested the Solicitor's opinion as to the binding character of the commitment made by Assistant Secretary Lewis to issue leases in the form which he had approved.

The staff review revealed numerous deviations from standard-form language and procedures now in use and recommended against issuance of the leases on the 1954 form.

The Acting Associate Solicitor provided his opinion, dated August 3, 1965, which held that the Department was not legally obligated to honor the commitment made by Assistant Secretary Lewis.

Mr. Stoddard apprised Congressman Biatnik of the results of his inquiry and a meeting was arranged with INCO officials to discuss possible adjustment of the lease terms.

The meeting was scheduled for August 17. Mr. Shafer was to represent the Bureau of Land Management. However, in the interim, he left Bureau employment to join the staff of the House Interior and Insular Affairs Committee and Edward W. Stuebing (Legal Assistant-BLM) was assigned to substitute for Mr. Shafer. Nevertheless, Mr. Shafer attended the meeting ex officio. During the course of this meeting, a number of problems were resolved. One of the proposals advanced by BLM was a device which would give the Secretary discretionary authority to escalate the royalty according to a formula based on an anticipated improvement in the grade of the ore at the end of the primary term and each renewal period.

The draft of this proposal submitted by the company reversed the effect of this formula so that the royalty was reduced by approximately 50% under the schedule appearing in the 1954 lease form.

At a subsequent meeting, the company was advised by Mr. Turner (Geological Survey) and Mr. Stuebing (BLM) that this proposal was not acceptable. After considerable discussion, the company submitted a slightly higher base schedule (now known as the "1965 INCO schedule") and the formula was abandoned by mutual consent. Both the Geological Survey and the Bureau of Land Management recommended against acceptance of the 1965 INCO schedule. The Geological Survey was disinclined to recommend any royalty rate below the 1954 schedule and the company would not increase its offer. The BLM proposed a compromise royalty schedule in a memorandum to the Assistant Secretary, Mineral Resources, on October 5, 1965. However, negotiations appeared stymied on the royalty question.

It was at this point that Under Secretary Carver requested that John F. O'Leary, Deputy Assistant Secretary, Mineral Resources, undertake to resolve the matter.

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