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Statement
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Promoting Supply Chain Resilience
Public Hearing Panel
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Minnesota Department of Employment and Economic Development
Great Northern Building, Jerome Hill Auditorium
180 East Fifth Street, St. Paul, MN 55101

Introduction

Talon Metals appreciates the opportunity to testify at this public hearing on promoting supply chain resilience for US manufacturing.

I would like to thank the Office of the U.S. Trade Representative (USTR) – Ambassador Tai and her team – for all the work you have done to promote strong, resilient supply chains for US manufacturing, including critical minerals – the primary ingredients of nearly all US manufactured goods.

About Talon Metals

Talon Metals is a publicly traded mineral resource company focused on discovery and development of high-grade deposits that contain nickel, copper, cobalt, and iron in the Lake Superior region of the United States.

Talon is presently conducting mineral exploration activities in Minnesota and Michigan, is proposing an underground nickel mine in central Minnesota in the state's permitting system and is starting the federal and state permitting process for its proposed Battery Mineral Processing Facility in Mercer County, North Dakota.

In 2023, Talon was selected for $20.6 million in funding from the Department of Defense to support its nickel exploration in the United States. In addition, Talon was selected for $114 million in funding from the Department of Energy to build the Battery Mineral Processing Facility in North Dakota as part of the Bipartisan Infrastructure Law in 2022.

These public-private partnerships greatly enhance America's ability to access its own mineral wealth and allow the US to be competitive in the production of nickel. However, strong US trade policies are needed to combat unfair competition from minerals produced at lower environmental and labor standards.

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Critical Minerals are Essential to Secure Supply Chains and Manufacturing Competitiveness

Critical minerals are essential to our clean energy economy and national security, including for batteries used for energy, transportation, industrial, and defense applications. Minerals like nickel are also key ingredients in major defense programs. The HY 80 high-strength submarine qualified steel that is required in Virginia class nuclear submarines is produced with nickel as a strengthening alloy.

We appreciate the inclusion of critical minerals as a sector of importance in the recent Request for Comment (RFC) published by USTR, and glad that critical mineral's role in secure supply chains is recognized in US trade and competitiveness policy.

We look forward to sharing updates on our efforts to build a resilient, domestic critical mineral and battery supply chain here in the U.S., as well as providing insight into global commodity pricing that in turn is impacting the viability of efforts to establish secure supply chains domestically and in allied countries.

We agree with the Biden Administration and Members of Congress from both parties that it is crucial that the United States establish supply chains that are anchored by high environmental and labor standards, resistant to geopolitical disruptions, and that reduce dependence on foreign nations that engage in hostile market and operational practices. By doing so, the economies of the United States and our allies will be more resilient, flexible, and better shielded from the national security risks associated with reliance on non-allied nations that currently dominate critical mineral and battery supply chains.

President Biden's Vision for Responsible Mining: Producing Applicable Critical Minerals in the United States at High Standards

President Biden has articulated a vision for responsible mining of domestic critical minerals that protects the environment, ensures good jobs for working people, respects tribal sovereign governments, and reshores manufacturing and production to the United States. The Talon Metals team shares this vision of responsible mineral production and has taken a different approach to mining, extracting, and processing critical minerals in the United States to meet these high standards. For example:

- In 2021, we agreed to a neutrality agreement and workforce training partnership with the United Steelworkers union.
- We have signed commitments to construct our operations in the United States under Project Labor Agreements with Building Trades unions in North Dakota and Minnesota.

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- We have conducted information sharing with proximate tribal sovereign governments and seek to share economic benefits with tribal people in the areas where we operate.
- We conduct quarterly community meetings and have an open-door policy at all our operations to answer community questions about our plans.
- We have shaped our initial mine proposal to respond to some of the feedback that we have heard form the community and will continue to do so as we move through the permitting process in Minnesota, North Dakota, and Michigan.

China's Strategic Dominance

Over many decades, China has strategically and systematically built up its capability to produce critical minerals – from mining through to recycling. This strategic imperative of the government involves obtaining access to raw materials around the world, investing in refining capability both in China and abroad, and investment in recycling systems.

In some elements, China controls much of the world's extraction and processing capacity. Recent reports show that China controls 90% of the entire world's ability to produce graphite. For the element gallium, which is used in new high-capacity semiconductors, China enjoys 100% control of production and supply.

This position of dominance is planned and strategic. This is not a strategy to secure domestic supply. The goal is to achieve global dominance in a particular mineral in order to control supply to ex-China customers. Export bans to restrict supply or flooding global markets to drive down global commodity prices and undermine the economic viability of alternative sources of supply outside of China, are the options that China can leverage once a market dominant position is achieved.

National Security Implications

As a company focused on discovering, delineating, mining, and processing high grade ores from the geology of the United States, Talon is uniquely positioned to provide perspective on the domestic production of critical minerals and the impacts of global commodity pricing.

As the Biden Administration has recognized, producing critical minerals in the U.S., while maintaining high standards for protecting the environment, participation of organized labor, respect for indigenous people, and community engagement, does cost more than producing these minerals in jurisdictions that do not share the standards of the United States or our values. However, Talon sees these high standards of production as part of the value proposition for our products and a commercial advantage.

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In recent months, global commodity markets for battery minerals such as nickel, cobalt, and lithium have been swamped by oversupply from China, or Chinese companies operating in third countries like Indonesia. Many experts observe that this is a pattern of behavior that is squarely aimed at undermining efforts to build up secure supply chains in critical minerals (currently dominated by Chinese production).

China uses its state-owned banks to finance critical mineral production outside of China with low-to-no cost loans and without regard to domestic or global demand. China realizes its goal of market dominance in certain mineral production through this state financing mechanism, which is not required to meet the conventional commercial return expectations of private lenders.

One of the Chinese government's marquee strategic initiatives in this area is its "One Belt, One Road Initiative" (often referred to as BRI) that has made enormous strategic investments in critical mineral production in third countries. A recent study from Australia's Griffith University highlights some of the key aspects of the BRI in the critical minerals sector.[1] A few key observations from Griffith report:

- *"For 2024, we see further growth of Chinese BRI engagement with a strong focus on country partnerships in renewable energy, mining and related technologies…"*
- *"Regarding BRI investments, Indonesia was the single largest recipient with about USD 7.3 billion in investments..."*
- *"Another important growth area of strategic importance is China's engagement in metals and mining reaching USD 19.4 billion globally…"*
- *"RBI Engagement in the sector has grown by 158 percent compared to 2022 and reached the highest level since 2013. The minerals and metals are particularly relevant to the green transition (e.g., lithium) and batteries for electric vehicles..."*

We are witnessing in real time an effort to undermine the security of supply for critical minerals, particularly for those produced according to the high standards set forth by the U.S. and allied nations. This undermines the investments we are making at home to create a secure critical mineral supply chain for critical technologies, and creates a dependency on China for these minerals that greatly threatens our economic and national security.

Policy Recommendations

USTR should consider using its trade policy tools to blunt the effects of China's efforts to dominate and control critical mineral supply chains. The actions announced today

[1] Griffith University Study: China Belt and Road Initiative (BRI) Investment Report 2023

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under Section 301 are a good start. In addition, we would urge the Administration to undertake a new Section 301 study focused on critical mineral supply chains, partnering with the Department of Commerce to pursue Section 201 and 232 tariffs, or initiating a review of all HTS codes associated with critical mineral supply chains to ensure that all materials are receiving proper scrutiny for tracking and reporting purposes.

In addition, while not under USTR's purview, the Department of Commerce engages in monitoring systems for steel and aluminum industries, which have served as important tools to inform policy and address overcapacity in these markets. The Administration, whether through Department of Commerce, USTR, or elsewhere, should consider establishing a similar monitoring system for imports of minerals and materials included on the U.S. Geologic Survey (USGS) Critical Minerals List, as well as the Department of Energy's newly formed Critical Materials List, which includes additional materials essential to energy technologies.

Strategic cooperation with our allies is also paramount to establishing new and fortified supply chains. In any industry, a coalition of international partners that adheres to fair and ethical trade practices can help reduce supply chain risks by encouraging strategic and shared investments, technology exchange, and diplomacy, to overcome disruptive global events and adversarial control. Coupled with government procurement preferences that are aligned with sourcing from domestic or allied production, these measures could provide significant support for domestic mineral productions from US mines or recycling facilities. Such "Buy Secure" government procurement preferences could be modeled on current "Buy Clean" government procurement preferences that are being implemented at federal and state levels.

US manufacturers are fortunate to have access to not only domestically produced critical minerals like nickel but also supply from long standing allies like Canada and Australia which also have deep reserves of critical minerals. The US must work in close collaboration with allies like Australia and Canada to jointly adopt policies that support development of secure supply of critical minerals.

In addition, the United States has recently expanded its collaboration with allies by introducing new Critical Minerals Agreements (CMAs) with nations that share our strong standards and values. It has signed one CMA with Japan and entered negotiations with the European Union (EU). While a priority must be given to initiatives that facilitate the onshoring of critical mineral supply chains, we encourage USTR to complete CMA negotiations to only enter negotiations with select U.S. allies. CMAs and similarly structured Free Trade Agreements (FTAs) with allied countries help develop alternative supply chains rooted in ethical trade practices and international cooperation, providing a

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sustainable alternative to Chinese producers operating in China and third countries like Indonesia.

We understand the USTR has also held talks with Indonesia bilaterally and as part of the Indo-Pacific Economic Framework (IPEF) regarding Indonesia's desire to begin negotiations with the United States on a "narrow" free trade agreement covering only minerals. We share concerns raised by organized labor, environmental NGOs and many Members of Congress regarding Indonesia's standards for labor rights, environmental protection, safety, and overall respect for human rights. Indonesia also has laws restricting trade in critical minerals, and Indonesian officials recently proposed an OPEC-like cartel for nickel-producing countries – policies that are clearly antithetical to common understanding of "free trade agreements." Due to its decision to partner with China, Indonesia is the world's largest producer of nickel. But the rapid expansion of Sino-Indonesian nickel production has exacerbated the negative environmental impacts, worker safety risks, poor waste disposal practices that impact ocean health, lack of community engagement; and significantly higher embedded CO2 footprint when compared to U.S., Australian, or Canadian nickel production. Each of these concerns are laid out in a bipartisan Senate letter sent to USTR, as well as the Departments of Commerce, Treasury, and Energy last year.[2]

Aside from the dominance of the Indonesian mineral industry by Chinese companies, these other issues remain unaddressed. For these reasons, the US should ***not*** start negotiations with Indonesia on a narrow critical mineral's agreement. CMAs should be reserved for countries that have in place strong labor, human rights, and environmental standards. Given the size of the Indonesian market and the many trade barriers faced by US exports to Indonesia, the US should only engage in discussions of a traditional, *comprehensive* free trade agreement that would also open Indonesian markets to US exporters in other sectors.

Conclusion

In sum, we urge USTR and other agencies to continue to promote policies and guardrails that incentivize purchasing materials produced using the highest labor and environmental standards. These materials are essential to our national and economic security, and USTR should pursue all available avenues to ensure strong, secure, and resilient domestic and allied critical mineral supply chains.

Thank you.

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[2] Indonesia Critical Minerals Trade Agreement - Version Final.pdf | Powered by Box