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'A Conspicuously Successful Case'

Statement by

George M. Humphrey

Honorary Chairman
The M. A. Hanna Company

Before the

**Senate Armed Services
Stockpiling Subcommittee**

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THE abrupt adjournment on August 17 of the Senate Stockpiling Subcommittee hearing left questions, and some degree of confusion, in the minds of many outside observers.

Since only partial reports of our initial testimony were published in the news media, we have printed Mr. Humphrey's opening statement before the Committee on August 16. This contains the basic information regarding the nickel transaction, of which, as Mr. Humphrey characterized it, both Hanna and the Government should be justly proud. We believe you will find his statement interesting and informative.

Sincerely yours,

W. A. Marting, *President*

The Hanna Mining Company

August 24, 1962

Statement by
George M. Humphrey
Before Senate Armed Services
Stockpiling Subcommittee

I appreciate the opportunity to make this statement to you today, setting forth the facts with respect to Hanna's connection with the sale of nickel to the Government.

I would like to begin my statement with a short summary of exactly where both the Government and Hanna stand today as a result of this transaction, and then I would like to go back to the beginning and explain in detail just how this result came about and my own connection with it.

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The net result of all of the transactions between the United States Government and all of the Hanna companies relating to all of the nickel contracts can be summarized as follows:

When the contracts are all completed, the Government will have on hand an inventory of 94,700,000 pounds of nickel at a total cost to it of \$67,200,000, which is a cost of 71¢ per pound, as compared with the current market price of about 75¢ per pound.

Included in this total cost are the amounts used to repay in full to the Government its advances of \$25,600,000 for the construction cost of the smelter plant and for working capital, and \$4,800,000 of interest at 5% on these advances. This total cost also reflects the cash bonus of \$1,722,000 paid to the Government by Hanna when the operation of the nickel plant was taken over for its account as well as the profit of \$4,200,000 realized in cash by the Government from the sale of 30,300,000 pounds of Hanna nickel to others.

In addition to the foregoing items reflected in the cost of nickel, the Government has also received income taxes paid to it by Hanna of \$5,800,000, withholding taxes of \$2,000,000 for its employees at the nickel operation, and approximately \$7,000,000 for power from the Bonneville Dam.

As compared with this, Hanna has sold one-quarter of its best nickel ore reserves, has realized a total net profit of \$7,535,000 from all sources for the seven years of operation. Hanna now owns and is operating the smelting plant, the cost of which has been repaid to the Government in full with interest and cash bonus.

The results of these transactions are further summarized in the following table:

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**SUMMARY OF FACTS RELATING TO HANNA NICKEL
CONTRACTS**

	Amount
Sales to Government to Aug- ust 14, 1962	
Cash payments to Hanna	\$72.6 Million
Credited against loans to Hanna	<u>25.6</u>
Total cost for 108.0 million pounds of nickel	\$98.2 Million
Less following amounts received by Government:	
Sales to others of 30.3 million pounds at a profit of \$4.2 Million	\$34.5 Million
Cash from Hanna—bonus pay- ment for plant	1.7
Interest on advances credited	<u>4.8</u>
	<u>41.0 Million</u>
Price paid for present inventory of 77.7 million pounds of nickel	\$57.2 Million
17 million pounds to be delivered before June 30, 1965	<u>10.0 Million</u>
Total price paid by Government for 94.7 million pounds of nickel*	<u>\$67.2 Million</u>
	<u>Cost per Lb.—\$.7102</u>
Other amounts received by the Government	
Federal income and withholding taxes paid by Hanna	\$ 7.8 Million
Sales to Hanna of power from Bonneville Dam	<u>7.0 Million</u>
	<u>\$14.8 Million</u>
Net profit to Hanna from entire transaction	<u>\$ 7,535,000</u>

*Sources: Report on Borrowing Authority dated December 31, 1961, submitted to the Congress by the General Services Administration pursuant to Section 304 (b) of the Defense Production Act as amended, and, Audit Report of Comptroller General of The United States dated April, 1961, covering Contracts DMP 49, 50, and 51.

Personal Participation Limited, Mistrusted Crash Program

I will now return to the history of the transaction and my connection with it.

My own personal participation in the nickel undertaking was very limited. The fact is that during the latter months of the Truman Administration, while the Hanna nickel contracts were being negotiated, I personally was engrossed in the negotiation and development of a very much larger project, embracing the building of a 360-mile railroad, opening of several iron mines, building of a shipping port, and construction of two good-sized towns, involving a total expenditure of something over \$300,000,000 in Quebec and Labrador. Under these circumstances, I had very little time to spend personally on this nickel project of so much lesser importance, and the part I played was to advise from time to time with my associates who were conducting the negotiations. As a matter of fact, I was always doubtful about Hanna's undertaking the project in the way the Government proposed. The Labrador development, which was many times larger and more important to the national economy to supplement the dwindling iron ore supplies from the Mesabi Range, was straining the executive and technical capacity of our organization to the full, and I did not want that interfered with in any way. I also mistrusted the wisdom and practicability of the crash basis on which the Government felt it must go ahead with the nickel plant. And I am sure now that if we had proceeded on our own in an orderly, businesslike way without acceding to the Government's urging for a crash program, we would have been able to supply nickel in greater quantity at an even earlier time. The contracts were under negotiation by my

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associates long before I had the slightest idea I might ever become an officer of the Government, and they were finally signed and delivered just before I took office.

When I was nominated as Secretary of the Treasury in January, 1953, I brought out, in my confirmation hearing in the Senate Finance Committee, the fact that these contracts had been negotiated and recently signed with representatives of the Truman Administration (see Print of Hearing before the Committee on Finance, United States Senate, Jan. 19, 1953, p. 22). As Secretary of the Treasury I had of course no occasion to take and did not take any action affecting them. As I told the Senate Committee (see Hearings p. 6) one of the first things I did when entering the Treasury was to issue a flat order that any questions of any kind that might thereafter arise affecting in any way any company with which I had been previously associated should go directly to an Under Secretary for attention, with full power to act without any reference of it to me. When I left the Treasury in July, 1957, I returned to the Hanna Company only as a director, without salary, and not as an operating officer of Hanna, and have had only general familiarity with the project since then until the hearings of your Committee prompted my recent, very careful review of the entire matter, on which I have just spent a good deal of time and effort.

This statement is based, therefore, upon my general familiarity with the origins and development of the nickel project and the careful review I have just made, and there are here today responsible officers of The Hanna Mining Company, who participated in the negotiations and directed the operations, to answer your detailed questions as to both.

For more than thirty years, the Hanna Company has spent an average of more than a million dollars a year in

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geological and geophysical work, in drilling, and in research into metallurgy and into various methods of beneficiation, to find, seek out, acquire and develop metal mining projects anywhere in the western hemisphere and in a number of other, more distant places. Over the years there has been a high percentage of failures and losses, but there have been sufficient successes with profit enough to offset them so that, by and large, the Company has been repaid for its large expenditures, and grown and prospered.

Government Pressed Hanna To Open Nickel Deposit

In 1948, a mining prospect known as Nickel Mountain, near Riddle, Oregon, was brought to Hanna's attention. It was prospected and drilled, and enough ore proved to warrant a mining operation, but there was no known way of working out the metallurgy. Control of the property was acquired, and Hanna technicians went to work with their research. By the spring of 1952, Hanna's research and laboratory work indicated that a satisfactory process to make ferronickel out of this ore might be worked out, and Hanna was prepared to carry the project to the pilot plant stage of development.

The United States was then in a shooting war in Korea. The economy was controlled under wartime powers. Jet propulsion fighter planes were just coming into greater use and were of rapidly growing importance in the strategy of our defense effort. The construction of a great fleet of jet fighters would require substantially increased use of nickel, which was already in extremely short supply. There was then no nickel production within the borders of the United States. It all had to be imported. Small and large nickel

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users were almost desperate in their search for nickel and were paying as much as \$2.25 or more per pound in order to maintain their supply of this very essential element. The Government had been for some time pressing Hanna to open the only known domestic source of supply. For example, on February 3, 1951, then Senator Lyndon B. Johnson, Chairman of the Preparedness Subcommittee of the Committee on Armed Services wrote me as follows:

Dear Mr. Humphrey:

In its report on nickel, the Subcommittee recommended that the appropriate Government agencies, in cooperation with private industry, intensify efforts to develop American nickel ore deposits such as those in Douglas County, Oregon.

I note from recent press reports that your company has taken an option on nickel deposits near Riddle in Douglas County, Oregon.

I should greatly appreciate receiving from you a report on your program for the development of these deposits, including an estimate of the time which may be required for both the development of the mining processes and the treatment of the ores, an estimate of the amount of nickel recovery which you presently expect to be available, and what aid, if any, you may require from the Government.

Sincerely,

/s/ Lyndon B. Johnson

Lyndon B. Johnson

Chairman

Preparedness Subcommittee

As a matter of interest, I attach a series of statements on the subject of the urgency of the nickel shortage from reports

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of various Congressional Committees from this time until the end of 1957. (See reports following this statement.)

Risks Not Justified For Commercial Development

The Government wanted crash action. But Hanna was being asked to enter a business that was entirely new and wholly untried, and Hanna was reluctant to go forward without pilot plant proof of the feasibility and economics of its process and a test of the marketability of its product in an orderly, businesslike way. This would have taken at least a year or more, but the greatest speed is often made by proven practical methods. The risks involved in a crash program were justified only for defense requirements, which might suddenly be changed. They were not justified for a commercial development. I was insistent with our own people that Hanna should not take the risks involved in an unbusinesslike crash program and in the immediate expenditure for the development of a mine and the construction of a plant under those circumstances. Through negotiations to overcome this situation, a plan was proposed which was finally accepted by both parties:

Hanna agreed to immediately invest, in addition to all past expenditures for acquisition, drilling, research and proving of the mining property and its process, up to \$3,800,000 of Hanna's own money to open, equip and develop its own mine with no Government assistance of any kind. Hanna then agreed to meet the Government's request and make a plain, straight, firm sale under a long-term contract to the Government of the entire production of nickel ore from its own mine for a period of nine years estimated at

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about 4,000,000 tons of ore at an agreed fixed price of \$6 per ton subject to adjustment for nickel content and escalation.

The Government agreed to advance to a corporation formed for the purpose by Hanna but wholly financed by the Government sufficient funds (approximately twenty-two million dollars) to immediately build a full-scale commercial plant of Hanna's design, but with no profit to Hanna, and thus gain time, which the Government desired. If the process turned out not to be feasible, Hanna could convey the plant to the Government in satisfaction of the advances. And in consideration of turning over all its research and technical knowledge to the Government without any payment to Hanna, Hanna had the right at any time to acquire full title to the plant by paying off all unpaid Government advances, plus a bonus of 7½% of the original cost. Hanna agreed to not only design and construct, but also to operate the plant to produce ferronickel for sale to the Government at cost, with no profit to Hanna from its operation until the plant had produced the full tonnage of nickel then desired by the Government and contracted for at cost. Hanna received a flat fee of \$100,000 a year toward the expense of providing the salaries and costs of its organization.

Both parties realized that the plant had no value except to operate on ore from this particular mine.

The Results — For the Government

Now, how did this work out, for the Government and for Hanna? The Government acted here in three capacities —first, as banker, advancing the funds to build the smelting plant and the working capital to run it; second, as customer,

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purchasing the ore from the mine to run the plant to make nickel for the stockpile through operation of the plant at cost; and third, as the agency responsible for national defense, to broaden the mobilization base by creating the one and only source of domestic capacity to produce a material in critically short supply.

First, as banker, the Government advanced approximately \$22,300,000 to build the smelter and \$3,300,000 for working capital and has been repaid the whole amount, plus 5% interest.

Nickel Cost Government Less Than Present Market Price

Second, as customer, the Government has now bought 108 million pounds of nickel, has 17 million more due under contract at less than market, and has sold 30 million pounds at a profit of \$4,153,000 during the period of acute shortage. When deliveries are completed, the Government will have acquired an inventory of 95 million pounds of nickel for the stockpile at a cost per pound of about 71¢. This cost per pound reflects the Government's total outlay, reduced by the \$4,153,000 of profit which the Government got for the 30 million pounds it sold and by the \$1,700,000 of bonus that Hanna paid it on transfer of the smelter, and also by the \$4,799,000 of interest already paid to the Government on its loans. For purposes of comparison, the market price of ferronickel has ranged recently from 77¢ to 75¢ per pound.

Third, toward its objective of broadening our mobilization base, the Government has by this transaction stimulated the creation of the only United States facility for the production of nickel, with a capacity of 20-22 million

pounds per year. The Government's total net outlay to accomplish this is the acquisition of the 95 million pound inventory at a cost per pound less than the present market price, with every cent of additional Government expenditure fully repaid with interest. There was an obvious strategic advantage in creating the capacity in the United States; but the economic advantages were also very important. The Government's alternatives were limited to Cuba and Canada. Any Cuban capacity would now be lost to us. If a contract of the same dimensions had been made with a Canadian company, more than \$100 million would have been spent outside instead of inside the United States for the purchase of nickel, with an adverse effect of that amount on our balance of payments, and the loss of millions in taxes, payrolls, and other benefits to our own economy. Those familiar with the nickel expansion program, I am sure, will agree that, of all the transactions the Government made for this purpose, the Hanna contracts involved the most efficient use of the least Government money, either per pound of nickel bought or per pound of capacity created, and it is surely one of the comparatively few cases where every cent of its expenditure has already been fully repaid to the Government with interest.

The Results — For Hanna

The result from Hanna's standpoint is this: In addition to all of its previous exploration expense, Hanna has invested \$3.6 million of its own money in its own mine, and during the period to April 1, 1961, it has produced and sold to the Government 4.4 million tons of its best ore. It also designed and built the smelter, perfected the process, and operated the smelter at cost. During this period, it made a net profit on the operation of its own

mine of \$7,535,000 over a period of seven years, after paying Federal taxes of \$5,820,000 to the Government.

In addition, Hanna has taken over for its account operation of the smelter, having repaid the Government loans and having made the additional payment of \$1,722,000 of bonus in cash on the basis provided for in the original contract.

Now, what of the future for Hanna? Hanna has now mined and sold about one-fourth of its best ore. The balance remains. It owns the mine and the plant. Through Hanna's own successful efforts, plus the loan from the Government, which has been fully repaid with interest, Hanna has introduced ferronickel, a product previously new to the American steel industry, for which Hanna is proceeding to try to develop a broadened market. If its efforts continue successful, a new commercial operation has been created that gives employment, pays taxes, supplies a needed material, and continues as the only source of nickel production within the borders of the United States.

Government Should Never Speculate In Commodities

Now, what is the real value of the Government's nickel stockpile? That is wholly dependent upon what the Government itself does from now on. The original purpose was to cover a deficiency in the supply of nickel required to meet the Government's essential requirements for war and for defense.

If the Government now changes its mind and wishes to dispose of its stockpile, it can sell it on the market, disturb normal nickel prices, operations and employment, and cause great losses, both to the Government itself and to

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the entire nickel industry. That is one reason why in a strong, free-market economy, the Government should never speculate in commodities.

If, however, this stockpile or any part of it is to be resold in spite of the possible consequences involved, some plan should be worked out for long-range, orderly, careful distribution when market demands are strong and commercial requirements are high, in ways and under circumstances that will least affect normal market operations. That is the only way in which the Government's own values in the stockpile can be protected and preserved.

In recent weeks, one foreign nickel producer has already cut the price of refined nickel two cents per pound. The market is sensitive, and the Government's own action will affect the degree of pressure placed upon it.

But that is only part of the story. Beginning during a shooting war the Congress and three successive Administrations have approved and carried on this strategic stockpile program. The Truman Administration started it and contracted for the greater part of the total now in stockpile. The Eisenhower Administration carried it on with vigor and belief in its desirability, and the Kennedy Administration has continued to increase it right up to this day. Whether it was really wise to start it or not is no longer debatable. We have it on hand, paid for during the past decade.

Those commodities now in stock which will not deteriorate, which must be imported and are not available in this country when required and which in the event of world disturbance are essential to our economic life or safety, should be kept intact. They are assets we should hold on to for Government use when needed. They were bought to protect our national safety. They may well be required

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again for that same purpose, and they should not be frittered away now, either to help the current budget or possibly disturb sensitive commodity markets. They should remain tightly held as a matter of permanent policy, subject only to considered Congressional control in the event any of them become clearly useless for Government use or national protection as time goes on if obsolescence should develop.

Conspicuously Successful Case; Both Parties Should Be Proud

In conclusion, this entire arrangement with Hanna was carried forward, not under the provisions of the Strategic Materials Stockpile Act, but under the terms of the Defense Production Act of 1950 which authorized the President to make commitments to purchase metals, minerals or other raw materials, and had as one of its purposes, as stated in its declaration of policy "the expansion of productive facilities . . ." Thus, through the Government's proper participation, as clearly designed and provided for by the Defense Production Act, and through Hanna's successful efforts, the Government is now protected not only with a stockpile of essential material for future use in any emergency, but a new industry has been created which may be successfully carried forward commercially and help to provide employment, taxes, and additional protection for the Government's possible future critical requirements in case of another emergency.

This is a conspicuously successful case, in which the objectives of the Congress have been fully realized, of which both Hanna and the Government should be justly proud.

**FOURTH REPORT OF
THE PREPAREDNESS SUBCOMMITTEE
OF THE SENATE COMMITTEE ON ARMED SERVICES**

January 8, 1951

“The current shortage has resulted from the collision of a rapidly increasing civilian and military demand for nickel with the relatively fixed supply produced by Inco. The foreseeable shortage, however, is even more serious. Nickel has important alloying qualities which are indispensable in steel making and the production of certain types of aircraft engines. The large increases in the production of these industries, which have now become basic to our survival as a free nation, depend substantially on a similar increase in nickel production.” (page 1).

“It is reported that the M. A. Hanna Co. is engaged in a metallurgical study of certain ores in Douglas County, Oreg. According to a report by the Geological Survey, published in 1942, these deposits contain some 6,600,000 tons of ore, most of which have a nickel content of 1 percent or more. The report concluded as follows:

The deposit can be mined by power shovels at low cost, but a new method of treating silicate ores or a great increase in the price of nickel would be required to make mining of the deposit profitable.

“In the present emergency, this deposit should not be overlooked and, accordingly, the subcommittee recommends that the Bureau of Mines and other interested agencies expedite efforts to develop this source.” (page 14).

**FOURTH ANNUAL REPORT OF
THE ACTIVITIES OF THE JOINT COMMITTEE ON
DEFENSE PRODUCTION**

January 5, 1955

“At the suggestion of Arthur S. Flemming, Director of ODM, the committee held an executive hearing on March 8, 1954, to review the nickel situation and discuss its effect on our national defense and to the domestic economy as a

whole. The committee also invited Charles S. Thomas, Assistant Secretary of Defense for Supply and Logistics, to present the latest military requirements; Edmund F. Mansure, Administrator GSA, to report on the actions being taken under the nickel resources expansion program to speed up new development and production; and Sinclair Weeks, Secretary of Commerce, to discuss the impact which the stockpile acquisitions is having on the civilian economy.

“While most of the information and data discussed at this meeting is ‘classified for security reasons’, it was made crystal clear by each of the responsible officials that the most serious problem facing this Nation today in its preparedness program, is to develop new nickel deposits and at the same time substantially increase the production capacity at existing sources.

“Your committee strongly urged each agency to make a further effort to explore every potential source and technical process to overcome this critical bottleneck. In view of the essential use of this metal in the production of certain top priority items, it was further agreed that costs should be considered secondary to our Government’s security until such time as the projected needs for both the military and civilian economy were more definitely in sight.” (page 15).

**FIFTH ANNUAL REPORT OF
THE ACTIVITIES OF THE JOINT COMMITTEE ON
DEFENSE PRODUCTION**

January 25, 1956

“In view of the supply-demand imbalance that is currently forecast for months to come, and the strategic need for meeting stockpile objectives, your committee continues to urge that ODM and other Government agencies exert every effort to expedite the Nicaro expansion, increase the productive capacity of all other sources of supply available to the United States, and to make acquisitions of nickel at an aggressive rate for delivery to the stockpile until our defense position with respect to nickel is substantially improved.” (page 38).

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**SIXTH ANNUAL REPORT OF
THE ACTIVITIES OF THE JOINT COMMITTEE ON
DEFENSE PRODUCTION**

January 22, 1957

“In view of the critical shortage of nickel which currently exists, and the anticipated shortage which is forecast for many months ahead, your committee urges that the responsible Government agencies make a determined effort to increase the nickel supply as has been recommended by your committee repeatedly.” (page 37).

**SEVENTH ANNUAL REPORT OF
THE ACTIVITIES OF THE JOINT COMMITTEE ON
DEFENSE PRODUCTION**

January 16, 1958

“With respect to supply, use, and distribution of nickel, the Department of Commerce made the findings which follow:

“1. The supply of primary nickel available to the United States will not meet the Nation's full requirements for several years. Expansion of the free-world supply now underway or definitely planned, may not meet fully the needs of the United States by 1960-65, when such expansions are due to materialize. If additional projects for expansion of the total supply now under discussion with the General Services Administration with respect to governmental assistance are actually undertaken in the near future, it appears that the supply that would be available at the end of 5 or 6 years will be adequate for our needs at that time.” (page 14).

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