



**WisBusiness: Mining equipment sales would mean more sales tax, but not necessarily new jobs**

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MILWAUKEE -- A proposed new iron ore mine in northern Wisconsin is unlikely to boost jobs at Milwaukee-area manufacturers Joy Global and Caterpillar, leading makers of massive blasting and hauling equipment.

But the project could mean hundreds of millions of dollars in sales for the companies – and the state's general fund would reap the accompanying sales tax revenue.

By one conservative estimate from one company that might supply the mine's likely needs, at least \$4.8 million could go into the general fund as the Gogebic Taconite mine gets going.

The sales tax receipts would be much more except for complex rules that allow exemptions for equipment used in the manufacture of a product -- rules administered by the Department of Revenue. According to Kennan Wood, a spokesman for the Wisconsin Mining Association, the proposed Gogebic Taconite mine could cost up to \$750 million to equip. While most of the mine's equipment would likely be exempt from statewide 5-percent sales tax under Wisconsin law, machinery used to extract minerals from the ground is taxable.

Mark Dietz, a spokesman for P & H Mining, a subsidiary of Joy Global Inc., says the proposed Gogebic Taconite mine would probably need up to four blast-hole drilling rigs to start with. These gigantic, 10-story tall machines, with roomy cabs for the operators, punch holes in rock and then blast the extracted minerals into smaller pieces. Dietz said each drilling rig is typically accompanied by an enormous electric shovel -- a six-story high, crane-like vehicle that rolls on tank-like treads.

P & H makes the blast-hole drills, which sell for \$3 million to \$4 million apiece. Electric mining shovels can cost \$16 million to \$20 million each.

P & H hopes to supply those big-ticket items to Gogebic Taconite, just as it has to similar surface-mining operations in Minnesota and Michigan. If the mine does order four of each, it could bring up to \$96 million in sales for P & H --

and \$4.8 million in sales tax revenue for Wisconsin.

And that's just at the beginning. Although the drills are built to last 10 to 20 years, and shovels for 20 to 25 years, Dietz said equipment does need to be replaced or augmented as mines expand. "Every other year, we're sending a new shovel or drill to Minnesota," he said.

Wisconsin Revenue Secretary Rick Chandler, appointed last year by Gov. Scott Walker, says that as the plan evolves, it will be up to his department to decide which machinery is deemed part of the mine's manufacturing operations – and thus tax exempt – and which is labeled as part of the mineral extraction process. Rock-crushing equipment inside the mine's production plant might be exempt, he said. But drills and mining shovels could well be taxable, he said.

Chandler said sales tax on mining equipment is charged to the county of destination – in this case, Ashland and Iron counties, each of which would collect an additional local sales tax of 0.5 percent.

P & H's biggest competitor, Caterpillar Inc., which owns the former Bucyrus Corp. in Oak Creek, makes similar mining equipment. Caterpillar not only makes drilling rigs and mining shovels, but also the burly haul trucks that cart hundreds of tons of rock at a time and the more common earth-moving equipment that will be needed for road-building and initial site preparation.

Out-of-state rivals for mining equipment purchases include Sandvik and Atlas Copco, both global manufacturers.

But both P & H and Caterpillar say they're poised to pitch their products if and when the proposed mine wins approval.

John Disharoon, vice president of industry relations for Caterpillar Global Mining, said any estimate of sales figures is purely speculative at this point. "Even after a permit is issued, it's several years before any mine operations take place," he said.

Caterpillar machinery for the proposed Wisconsin mine probably would not be made in Wisconsin, Disharoon said. "Our Milwaukee-area facility makes mining equipment that is way too large," he said. However, sales of Caterpillar products for the proposed Wisconsin mine would go through the company's Wisconsin authorized dealer, Fabco, he said, and as such, would be subject to applicable Wisconsin sales tax.

Chandler said last year's total sales tax revenue for the state was about \$4.1 billion. An extra \$4.8 million from locally purchased mining equipment would increase that total by one-tenth of a percent. Overall state sales tax revenue has been growing by much more than that already – it increased 4.2 percent over

2011 and is expected to increase by about 3.4 percent by the end of fiscal year 2012 and again by 2.7 percent in 2013.

But while not a windfall, “in terms of the effect on sales taxes, it’s much bigger than most other purchases we see, so it’s relatively, very big,” said Chandler.

Neither manufacturer foresees a need to hire more workers should the Gogebic Taconite mine move forward. Compared with mega-mines in other countries, the proposed Wisconsin operation is small.

“In the greater scheme of things, it will have a marginal impact on our employment,” said Dietz of P & H.

“There’s absolutely no way at this point we could say we’re going to add 10 jobs or 100 jobs,” said Caterpillar’s Disharoon. “These orders are generally placed years in advance and it takes a long time for the mine to come to fruition, and while that mine might get going, a mine in Arizona may be going down or a mine in Chile may be exhausting its resources. We have a global demand that we try to meet from our 200 facilities around the world so it’s really false to take any specific mine site or any specific piece of legislation and tie that directly to a fixed number of jobs.”

That said, Disharoon said he’s sure iron mining would bring numerous jobs to northern Wisconsin.

“One of the biggest demands we have in the mining industry right now is qualified, skilled tradesmen, both to operate the equipment and to service the equipment, let alone to manufacture the equipment,” he said. “It’s very, very technically involved, it’s computer-aided hydraulics, there’s autonomy (robotics) involved, 3-D dimensioning for the mine and for the worksite itself. You have to have a pretty good aptitude for technology to be able to operate this equipment.”

Despite the skill requirements, both manufacturing spokesmen said, based on their experience at mines in other states, local residents can and do get hired – especially if they have prior experience as a mechanic or driving big rigs, and if they have access to specific mine skills training.

Disharoon says Gogebic Taconite might partner with local governments to set up training programs for new mine workers.

“We provide factory training for the safe, efficient operation of the equipment; the mine operator is responsible for the hiring of the personnel at the mine,” said Disharoon. “I know that they are working, or planning to work with, the state development office to ensure that they can get people that are able to be trained to operate the mine.”

In an appearance Tuesday at P & H Mining, Walker said Wisconsin high schools and tech schools aren't training enough students in manufacturing trades, such as machinists and welders, because of a lack of interest in blue-collar fields. Walker complained that tech college classrooms are plagued by vacant seats.

But Dietz is hearing just the opposite.

"The tech schools could probably expand a little bit," he said. "What we're seeing is that all of the welding classes are filled up quickly. There's a waiting line to get in. The word is getting out, thanks to the news media, that there are great careers in industrial arts."

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*Photo courtesy P&H Mining Equipment*