BULLION COIN PROGRAMS OF THE UNITED STATES MINT: CAN THEY BE IMPROVED?

HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC MONETARY POLICY
AND TECHNOLOGY

OF THE

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U.S. HOUSE OF REPRESENTATIVES

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BULLION COIN PROGRAMS OF THE UNITED STATES MINT: CAN THEY BE IMPROVED?

Thursday, April 7, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC MONETARY
POLICY AND TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:01 a.m., in room 2128, Rayburn House Office Building, Hon. Ron Paul [chairman of the subcommittee] presiding.

Members present: Representatives Paul, Lucas, Luetkemeyer, Huizenga, Hayworth, Schweikert; Clay, Maloney, and Green.

Chairman PAUL. This hearing will come to order. Without objection, all members' opening statements will be made a part of the record.

We will now go to our opening statements.

I am pleased to be holding this very important hearing examining ongoing concerns over the United States Mint's bullion coin programs. Given the financial difficulties of the last few years, and the possibility of large-scale inflation due to the Federal Reserve's quantitative easing programs, it is not surprising that many investors are rushing to purchase gold and silver coins. As the world's largest mint, supplying one of the world's largest markets for bullion coins, it is imperative that the Mint be able to supply the bullion market with an adequate quantity of coins.

Our witnesses represent various sectors of the coin industry, each with a unique viewpoint, and I look forward to hearing their perspectives on the Mint's bullion coin programs and their suggestions on how to improve the Mint's efficiency, for planchet shortages and minting stoppages has often been focused on the Mint and its procedures for planchet purchases, coin marketing, and bullion sales.

In a market as potentially volatile as the precious metals market, and given the Mint's status as a self-funding agency, it is understandable that the Mint does not want to store millions of ounces of precious metal planchets whose dollar values could conceivably drop by the time they are minted and sold. However, this uncertainty and the cyclical nature of coin sales makes it difficult for planchet suppliers to gauge future demand, meaning that they are less likely to invest in capital equipment to increase production.

Thus, with a huge upswing in demand, as we have seen recently with Silver Eagles, the Mint is unable to source enough planchets and the rush to produce enough one-ounce planchets leads to a reduction in resources available to produce five-ounce planchets, proof planchets, etc.

Silver and gold are in an unprecedented bull market right now, with Silver Eagles selling at a rate that, when annualized, would mean sales of 48 million coins this year. Considering that total American silver production is only around 40 million ounces, this would be a significant sales figure, making it all the more important that the Mint minimize disruptions.

I look forward to the testimony of our witnesses.

And now, I will yield for an opening statement to the ranking member, Mr. Clay.

Mr. CLAY. Thank you so much, Mr. Chairman, and thank you for holding this hearing regarding the U.S. Mint's bullion coin program.

And thank you to the witnesses for appearing in front of this Subcommittee on Domestic Monetary Policy.

After reading the witnesses' testimony, I look forward to their insight regarding those problems they have identified at the U.S. Mint and what corrective measures the U.S. Mint should make to address these problems.

Also, I notice that no representative of the U.S. Mint is appearing in front of the committee for this hearing, and at this time, Mr. Chairman, I would like to reserve the right to have a comment period so that the U.S. Mint can make comments in regards to this hearing for the record. Thank you so much.

Chairman PAUL. Does anybody else care to make an opening statement?

Okay. We will proceed to the testimony.

I would like to welcome the panel today. I am looking forward to hearing their testimony.

And without objection, your written statements will be made a part of the record. You will be each recognized for a 5-minute summary of your testimony.

I would like to go ahead now and introduce our panel. We have four panelists here today.

First, we have Ms. Beth Deisher, who is in her 26th year as editor of Coin World, the leading publication of collectible coins. She is author of, "Making the Grade: A Grading Guide to the Top 50 Most Widely Collected U.S. Coins." Ms. Deisher is often interviewed by the media as a coin collector spokesperson.

We have, also, Mr. Terence Hanlon, president of Dillon Gage Metals Division, located in Dallas, Texas, one of the largest metals dealers in the United States and an authorized purchaser of the U.S. Mint. A leading expert on precious metals and gold coins, Mr. Hanlon has worked closely with the world's major mints and is called upon by gold and silver councils for market and product evaluations.

We also have Mr. Ross Hansen here today. He is the founder and CEO of Northwest Territorial Mint, the largest private mint in North America and an authorized retailer of U.S. Mint bullion coins. Mr. Hansen has been in the precious metals business for 35 years, and in 2009, acquired the Medallic Art Company, a minting facility that used to produce silver blanks for the U.S. Mint.

Mr. Raymond Nessim is CEO of Manfra, Tordella & Brookes Company, a precious metal wholesale distributor and authorized purchaser of the U.S. Mint and an official distributor for government mints around the world. Since the 1960s, Mr. Nessim has held positions with various firms managing and directing precious metal investment.

Once again I would like to welcome the panel, and we will proceed to the first witness, Ms. Deisher.

STATEMENT OF BETH DEISHER, EDITOR, COIN WORLD MAGAZINE

Ms. DEISHER. Thank you, Mr. Chairman. I would like to thank you and the subcommittee for inviting me to testify here today.

During my career, I have been privileged to chronicle the U.S. Mint bullion coin programs from their origin in the research and recommendations of the Gold Commission in 1982; to the passage of legislation authorizing the American Eagle gold and silver bullion coins in 1985; to the gold bullion coin first-strike ceremony at West Point on September 8, 1986; and then through the twists and turns of the ensuing 25 years.

Since Coin World's largest constituency is comprised of collectors, my testimony will articulate the view of collectors, who often are also investors. The quality of the silver, gold, and platinum bullion coins produced by the U.S. Mint is exceptional. However, the marketing of these coins is subpar and often disruptive to the marketplace.

Most of the Mint's problems in marketing bullion coins are rooted in an ongoing failure to understand who its customers are and why they purchase the bullion coins. In my written testimony, I have cited a number of problems. In this short timeframe, I would like to emphasize solving those problems and making the bullion coin programs better.

These recommendations include: The U.S. Mint should avoid purposely creating rarities. The U.S. Mint should spend time and resources to better acquaint its marketing staff with its various customer constituencies for bullion coin products.

The U.S. Mint should better inform its customers as to when its coin products are going to be available in the marketplace. The U.S. Mint should mint to demand by allowing a certain number of days for collector versions of bullion coin products to be purchased and/or ordered.

The U.S. Mint should increase bandwidth for its Web site to facilitate the handling of high-traffic ordering periods. The U.S. Mint should secure more planchet suppliers and better plan procurement and manufacturing so as to avoid disrupting profitable and popular coin programs.

The U.S. Mint should exercise care in scheduling bullion coin sales so they are more evenly paced throughout the year and not dump into the marketplace near the end of the calendar year. The U.S. Mint should take a more active role in providing the public with consumer alerts regarding any of its products that might be subject to questionable marketing practices in the secondary market.

The U.S. Mint should place mint marks on all of its bullion coins to identify the mint of manufacture. Such marks would preclude misrepresentation and possible fraudulent practices in the marketplace. We will also recommend that the U.S. Mint create a standard protective capsule option for housing all of its collector version bullion coins.

Thank you again for the opportunity to testify, and I would welcome any questions that you may have.

[The prepared statement of Ms. Deisher can be found on page 22 of the appendix.]

Chairman PAUL. Thank you very much.

And we will go on to Mr. Terence Hanlon. Please proceed.

STATEMENT OF TERENCE F. HANLON, PRESIDENT, DILLON GAGE METALS

Mr. HANLON. Chairman Paul, Ranking Member Clay, and members of the subcommittee, I would like to thank the subcommittee for the opportunity to appear before it today to discuss the United States Mint's bullion coin program. It seems appropriate for Congress to take stock of this important program at this time, as 2011 marks the 25th anniversary of the introduction of the American Eagle bullion coins.

Congress created the world's most successful bullion coin program with its passage in 1985 of the Statue of Liberty-Ellis Island Commemorative Coin Act and Gold Bullion Coin Act of 1985, which authorized, respectively, the American Eagle silver and gold bullion coins. Since the product launched in 1986, the coins have become the dominant bullion coins in the global market for physical bullion coin investments.

Dillon Gage Metals is one of the largest precious metals dealers in the United States. Our Dallas-based firm is proud of its affiliation with the United States Mint, as a key distributor of its American Eagle gold, silver, and platinum bullion coins. We look forward to the introduction, hopefully later this year, of a palladium coin to the program as a result of Congress' passage last December of the American Eagle Palladium Bullion Coin Act of 2010.

Over the past 25 years, the Mint has produced bullion coins of exceptional beauty and quality. Their marketing team has built a strong brand for the Mint's bullion coin line of products which are recognized and desired the world over, and has established an unrivaled distribution network.

The Mint is to be congratulated on these accomplishments. This is an extraordinary time for the global precious metals market as demand for these metals climbs and prices are at or near record highs. This demand can be traced back to the international financial crisis that began in 2007, and was further fueled by economic uncertainty, jittery equity markets, and the looming threat of inflation.

Many investors in physical precious metals products prefer the size and convenience that coins offer, as well as the imprimatur that the national Mint provides. Overwhelmingly, investors choose the American Eagle bullion coins, and they do so for three key reasons: first, the coins weight, content, and purity are guaranteed by the U.S. Mint and the U.S. Government; second, there is a liquid market for these products because of an established network of authorized dealers that ensure a two-way market; and third, the exceptional beauty and quality of the coins make them desirable.

As a result, at times the Mint has exceptional demand for its gold and silver products, but it has at times been unable to keep pace with the demand due to an insufficient supply of coin blanks. This has led to disappointed customers and resulted in market share losses to other Mints' bullion products.

The Mint has taken steps to address its supply difficulties by adding additional capacity, but it still struggles to meet demand, particularly for the Silver Eagle bullion coins.

An adequate supply of blanks caused the Mint to forego production in 2009—correction, an inadequate supply of proof versions of the American Eagle gold and silver coins because of a requirement that gave priority to the production of bullion coins over proof collector coins. Fortunately, Congress addressed that problem with its passage of the Coin Modernization, Oversight, and Continuity Act of 2010, and provided the Mint the authority to produce collector uncirculated and proof American Eagles even in times of unprecedented demand for the bullion versions.

The Mint also experienced problems with its rollout late last year of the America the Beautiful silver bullion coins. The problem highlighted weaknesses in the communication between the Mint and its authorized purchasers and the broader retail dealer community that the Mint relies upon to sell its products to consumers.

The Mint should be encouraged to work more closely with its distributors and to have regular dialogue with them. In doing so, it will help the Mint to better gauge the market conditions for their products by hearing firsthand from those making the markets for them.

The anticipated introduction of a palladium American Eagle coin this year will bring a new dimension to the Mint's bullion offerings. It will offer investors an attractive price point in relation to silver, gold, and platinum, with different supply-demand factors for the material.

I believe investors will welcome the Mint's resumption of the production of the platinum Eagle this year, which the Mint halted at the end of 2008. Additionally, it would be fitting to mark the 25th anniversary of the American Eagle program with production of a four-coin collector set comprised of a gold, silver, platinum, and palladium Eagle coin.

Congress could give a further competitive edge to the American Eagle bullion products by adjusting the capital gains tax treatment on these investments to make them on par with securities. The 1981 passage of the Economic Recovery Tax Act created a category of collectibles within the Internal Revenue Code, which includes precious metals.

This change in the Tax Code caused precious metals investments to be taxed at a different rate than that of investments in equities. As a result, current tax law imposes a maximum rate of 28 percent on long-term gains on precious metals bullion investments rather than the maximum 15 percent levied on securities and mutual funds. By lowering the rate, Congress could substantially boost the market potential for the American Eagles.

Again, I want to thank the subcommittee for the opportunity to be before it today. I would be pleased to answer any questions you may have.

[The prepared statement of Mr. Hanlon can be found on page 28 of the appendix.]

Chairman PAUL. Thank you, Mr. Hanlon.

We will go on to Mr. Ross Hansen now.

STATEMENT OF ROSS HANSEN, FOUNDER AND CEO, NORTHWEST TERRITORIAL MINT

Mr. HANSEN. Thank you.

Chairman Paul, Ranking Member Clay, and members of the committee, my name is Ross Hansen, and I am founder and CEO of Northwest Territorial Mint. I have personally been in the precious metals business industry for 35 years, and I founded Northwest Territorial Mint in 1984 as a full-service integrated Mint.

We are the largest non-governmental mint in North America, and we not only produce our own brand of bullion products but we are also a retailer of a number of different governmental bullion products, including being an authorized retailer of the United States Mint bullion coins.

Two years ago, I acquired Medallic Art Company, which was, at one time, a primary producer of silver blanks for the U.S. Mint. And in full disclosure, my company makes a number of challenge coins for all levels of military, many government agencies, including numerous Members of Congress. Because of my experience in the private sector, I have been asked to testify before this committee regarding the bullion coin program of the U.S. Mint.

As you may know, the U.S. Mint began its program in 1986, but it has only been in the last 3 years that demand for the silver American Eagle bullion coins has exploded to unprecedented levels. Many social and economic factors have contributed to this dramatic increase in demand, not the least of which is the public's perception of an imploding U.S. dollar.

In recent years, the U.S. Mint has been often been unable to meet the increasing demand for its bullion products. The frequent shortage of these products has led to the following problems: one, the premium charged by the authorized U.S. Mint distributors have fluctuated wildly; two, sales have been lost, which decreases the amount of revenue to the U.S. Mint; three, the bullion programs of foreign governments have been allowed to penetrate into the U.S. market; and four, the production problems have created a widely held negative perception of the U.S. Mint.

The cause of the Mint's inability to make enough bullion products to satisfy demand can be traced directly to its supply chain, specifically its supplies of silver blanks. For example, up until recently the United States Mint was using a single source for its silver blanks. This single source had known limitations in its production capacity and could not expand its production to meet the Mint's needs.

Rather than working to develop a domestic pool of vendors for these raw materials, the U.S. Mint has contracted with the Perth

Mint in Australia—half a world away—to make up the shortage. Any business would recognize that this adds to the cost of the material and transportation, and significantly increases the length of delivery.

I am not here today to merely point out the obvious shortcomings of a program for which I have a high regard. Instead, I would like to see the American Eagle bullion program continue to grow and succeed.

For this to happen, I offer the following solutions for your consideration: One, the U.S. Mint should create an industry advisory group comprised of experienced minting industry professionals who are intimately familiar with the material and processes employed by both government and private mints. This group should include suppliers of both the equipment and raw materials that are used by the industry. This group would be distinct from an existing advisory group that deals with coin design issues; the group I am proposing would help with coin production issues.

Two, the U.S. Mint should engage in an aggressive vendor development program to assure that it has multiple domestic suppliers to meet the Mint's growing needs. Three, as part of the vendor selection the U.S. Mint should ensure that its vendors have an elastic capacity, that is, they both have the ability to expand production and supply blanks as needed. Four, the U.S. Mint should maintain a larger inventory of bullion blanks and finished coins in order to better respond to surges in demand for its product.

And five, the U.S. Mint needs a change in attitude. They often have displayed an attitude, which used to be attributed to the phone company, of, "we don't care—we don't have to." Their attitude towards vendors and authorized purchasers is often described as surly and arrogant.

It is my opinion that these recommendations, if implemented, could help to make a good program into an excellent one that would fill its congressional mandate to produce high-quality bullion products in sufficient quantities to meet the demands of an ever-changing market.

Thank you for letting me share my thoughts with you.

[The prepared statement of Mr. Hansen can be found on page 30 of the appendix.]

Chairman PAUL. I thank the gentleman.

We will now go to Mr. Nessim.

STATEMENT OF RAYMOND NESSIM, CHIEF EXECUTIVE OFFICER, MANFRA, TORDELLA & BROOKES, INC.

Mr. NESSIM. Mr. Chairman, members of the committee, the subject matter being bullion coin programs of the United States with a question, can they be improved, the answer to the question will always be yes, they can be improved. Established measurable goals can always be improved by means of flexibility and transparency.

Silver Eagles recent short-term supply probably is caused by domestic fabrication capacity of silver blanks. This issue may be addressed by extending some flexibility to U.S. blank fabricators in order to help them invest in additional capital equipment for increased capacity, maybe flexibility simply in the form of a minimum quantity order guarantee per annum for a certain period of time.

With regard to the America the Beautiful silver coins, the issue was not that of distribution but rather that of supply. The United States Mint has effectively built up great anticipation for the new 2010 silver America the Beautiful set.

Expectations were that the Mint would mint sufficient quantities to satisfy potential public demand. Instead, the Mint announced only in December of 2010 that they were able to fabricate only 33,000 sets.

As wholesale distributors, the day we were notified of our allocation we proceeded to sell part of our allocation to several retail dealers, as we normally do. Later that same day, or maybe the following day, we were informed by the Mint that allocations were cancelled and that they will relaunch, and accept orders on December 10th.

The smaller-than-expected mintage prompted some retail dealers to offer these coins on their Web sites to the retail public at very high prices. We had to cancel our sales agreements, which placed us in a very embarrassing predicament.

To protect the U.S. public from potential price gouging, the U.S. Mint issued new directives on December 9, 2010, to the A.P.s requiring them to: make available for sale directly to the retail public all their allocations; limit profit margin to no higher than 10 percent; enforce a limit on coin design and sales for each household; and not sell any such coins to either their own company officers or employees.

Despite the problems which this has caused, we consider, in our opinion, that the Mint has done the right thing and made the right decision. These directives created three problems for us, namely: one, the risk of being accused of price fixing; two, not being able to hedge the silver content of our purchase, which is our norm, consequently being left exposed to price risk decline; and three, as wholesale distributors we were not adequately equipped at the time to sell one coin of each design for each household.

Under the circumstances, the Mint acted promptly, decisively, and did what it had to do to counteract delayed production and limited mintage.

If there are any lessons to be learned from this experience with reference to, "can they be improved," maybe providing A.P.s with reasonable price notice change or mintage problems; minimizing surprises by means of regular, open, transparent communications with the A.P.s regarding marketing plans, fabrication, or minting obstacles, or any other difficulties; and allowing the Mint more flexibility by lifting some legislative restrictions, allowing them to operate a little bit more like a commercial entity.

In conclusion, and in our opinion, the current middle management of the Mint, be it bullion, procurement, precious metals, contracting, production, or manufacturing consists of very experienced, qualified, and dedicated individuals. What appears to be void in our experience is a senior chief executive with sufficient authority to act and report to a political appointee and to a board of directors comprised of a cross section of specialists with commercial experience, U.S. blank fabricators, and U.S. authorized purchasers.

Thank you.

[The prepared statement of Mr. Nessim can be found on page 34 of the appendix.]

Chairman PAUL. I thank the panel.

And I will now yield myself 5 minutes for questions.

First, I would like to mention that one of the reasons I think we are here today and we are concerned, is because we have a shortage of coins and there is a high demand, and the Mint hasn't been able to keep up. That seems to be the major problem.

And then the questions raised are how things are distributed and how things are managed, and what is the responsibility of the Mint? But in many ways, what we are talking about here is a reflection of what we are doing to our money. This shortage is a consequence of the debasement of a currency.

Of course, there was a time when there was a fixed exchange rate between the paper and the coinage when the coins had actual value, gold or silver. And in the 1930s—in 1933, of course, there was a devaluation of major proportions and it went from—a dollar went from one-twentieth of an ounce of gold to one-thirty-fifth of an ounce of gold, and then gold was made illegal and it was fixed for a long, long time.

In the 1970s, we had two fixed devaluations: one, it went one-thirty-fifth of an ounce to one-thirty-eighth of an ounce of gold; and then it was refined 2 years later in 1973 to one-forty-second of an ounce of gold. And then after that, the debasement of the currencies went to the marketplace as gold was legalized.

So we have had steady debasement of the currency, and now, as some of you have already mentioned, the economy has a lot to do with—people are worried and concerned about how they preserve their wealth. So there has been a high demand for silver and gold to the point where now there are shortages.

The problem is a technical problem on how to deal with this, but ultimately, if you had a sound currency, this would be a non-event; it would be a non-problem. But right now, when you think about the debasement of the currency, it has been horrendous. One-twentieth of an ounce of gold to one-forty-second of an ounce of gold. That is a huge debasement of our currency, and people are struggling and just wondering, what do you do when a government does this to its money?

But anyway, I would like to see it facilitated, that people can handle—help take care of themselves because before 1976, it was illegal to do this, to actually buy coins and buy gold coins, and you went to jail if you bought a gold coin.

But I do want to ask a general question to the panel: If you would, I know you have touched on this already, but just if you could briefly explain to us the distribution network—how does it work from the time the Mint does something and until I can go get a coin in my pocket? Would one of you volunteer and describe to me exactly how that works?

Mr. Hanlon?

Mr. HANLON. Yes, I would be happy to.

The Mint has authorized purchasers, of which we are one. So the product comes from the Mint to us, as an authorized purchaser, and we have the responsibility of making a two-way market, both providing that product to dealers who are providing the product directly to the retail customer. And as well, we have a responsibility to make a buy-back that is reasonable so the spread between the bid and the ask is a reasonable number, a close number so it also maintains a liquid market.

So it takes three steps. It comes to the authorized purchaser. We then distribute to the dealer—sometimes a wholesaler who will distribute it one more time.

But normally, we are selling to the dealer who is providing that product to the customer. That ranges from coin dealers, banks, brokerage houses, pawn shops. It is a fairly liquid market at this point.

Chairman PAUL. Is there a buy-back arrangement with the Mint, or once you buy them, they are yours?

Mr. HANLON. No. The Mint strictly sells—

Chairman PAUL. Right.

Mr. HANLON. —they do not buy back.

Chairman PAUL. Okay. Another quick question: Right now I understand that I can't go to the Mint and buy bullion coins. Would there be anything wrong with that?

Mr. HANLON. The Mint is not capable of handling that. First of all, they can't handle a two-way market because they would have to hedge their position, which they have absolutely no experience or knowledge in.

It would be overwhelming, actually, for the Mint to take that position. The spreads would be too wide if they did get involved in it.

Yes, it would be wrong.

Chairman PAUL. But they still sell proof sets. Is that correct—the Mint?

Mr. HANLON. The Mint still sells—

Chairman PAUL. To individuals.

Mr. HANLON. —numismatic products to individuals, yes.

Chairman PAUL. Okay. My time has expired.

I yield to the ranking member, Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman.

Ms. Deisher, in your December 20, 2010, editorial in Coin World, you called on Chairman Paul and members of this subcommittee to review the Mint's handling of the five-ounce silver bullion coin program. In that editorial you noted that the 2010 production numbers were significantly lower than the net worth that authorized purchasers had anticipated.

You wrote that such low mintages will produce a speculating frenzy smacking of contrived rarity, and it is incumbent upon the U.S. Mint to produce sufficient bullion coinage to satisfy demand. So I am sensitive to the fact that the U.S. Mint fell short in that respect.

However, I was pleased to see in Mr. Nessim's written testimony that in his view, the U.S. Mint took appropriate mitigatory actions to address the very speculating frenzy you referred to. While I would hope we can find a way for the U.S. Mint to address the supply issues, I am pleased that the Mint took action to protect the U.S. public from potential price gouging, which Mr. Nessim described as the right direction.

I would also welcome any suggestions from the witnesses as to how we can ensure that the Mint is able to supply investor and collector demand.

Finally, in fairness to the U.S. Mint, I would like to ask for unanimous consent to enter into the record an op-ed from former U.S. Mint Director Ed Moy that gives the U.S. Mint's perspective on this—

Chairman PAUL. Without objection, it is so ordered.

Mr. CLAY. Thank you.

Ms. Deisher, in your written testimony you recommend that the U.S. Mint should take a more active role in providing the public with consumer alerts regarding any of its products that may be subject to questionable marketing practices in the marketplace. Can you give me an example of the type of questionable marketing you refer to and how you think the U.S. Mint should address it?

Ms. DEISHER. One of the ongoing problems that we have seen is the secondary market making products of what they call first-strikes. The U.S. Mint has said they do not keep track of the first coin struck. What they do is put tracking numbers and information on packaging slips, and these go to the grading services, and the grading services are looking at the low numbers saying, "Aha, this is the first coin struck."

In the collector market, that is the magic thing, to have a first coin struck. What we are seeing in the market—and you see it on the cable television programs all the time—they are asking huge premiums and saying, "These are the first coins struck," when in fact, they are not.

The Mint issued a consumer alert, one in 2006. This continues to be a problem. In fact, there was a civil suit against one of the grading services in Florida and that company settled out of court and paid quite a bit of money.

But other services continue to do this and many people pay huge premiums for something that is not. We would like to see the Mint be more proactive and make the public aware that there is no way that they know if the coin is the first one struck or not. This is one of the areas that we feel the Mint could be much more proactive.

Mr. CLAY. I am sorry.

What is your opinion on limiting the newest coin to one household—to one purchase per household? Is that effective, or—

Ms. DEISHER. What it does is encourage speculation. For instance, in the America the Beautiful, they limited the bullion product to 33,000.

This is a pattern we have seen with virtually every new product. They will have some type of limitation because the market has built up a great enthusiasm. Whether it is a production problem or whatever, there is a limited quantity.

And therefore, speculators go in and only if you have one per household, but I can assure you, probably on the Mint's mailing list and some of these people who were told to sell them like that, the dog in the house had an address, the cat in the house, and every cousin in town had an address. There are ways to get around that. These artificial, one-per-household things don't work.

So the solution is to work ahead of time to understand what market demand could be. I have to tell you that we follow virtually every world mint that produces coins. We don't see this problem in any other mint.

Mr. CLAY. Thank you.

Thank you.

Chairman PAUL. I yield 5 minutes to Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Mr. Hansen, I am just kind of curious: Can you tell me just how volatile the market is, and if we oversupply it, is that going to have an effect on it? Can we oversupply it based on demand? Can you just give us a little educational background on it?

Mr. HANSEN. On some of the collector coins, yes, it can be oversupplied. And we have seen that.

On the bullion market, the bullion market is a very volatile market. All of us dealers can attest that it depends on what is happening in the financial markets. Our sales can fluctuate wildly.

But if the U.S. Mint carries a larger inventory, it can help with some of the supply shock.

Mr. LUETKEMEYER. Who would bear the cost of that increased supply or inventory?

Mr. HANSEN. The U.S. Mint is actually quite profitable when it comes to making their bullion products. And if there was any additional cost, it would be quickly made up by the increase in profits.

Mr. LUETKEMEYER. So they just pass the cost on, is what you are saying?

Mr. HANSEN. Right. The U.S. Mint, in my best estimate, loses about a—about a third of their sales are lost because they can't supply to demand. And the small increase in production would give substantially more sales—

Mr. LUETKEMEYER. Okay.

Mr. HANSEN. —which would then provide the profits to afford that.

Mr. LUETKEMEYER. Okay.

Mr. Hanlon, in your testimony you talk about perhaps changing the tax rate from 28 percent on collectibles, which include precious metals, down to 15 percent, which is there for the securities and mutual funds. Can you tell me, how much would this increase demand? How much kind of a cost would this be to the government? Tell me what you think would happen here if we did this.

Mr. HANLON. As far as the Mint is concerned, it would benefit greatly because there are multiple people who would love to purchase precious metals as an alternative investment to standard securities, so it is—

Mr. LUETKEMEYER. So if you did this perhaps would the demand for the product go up 10 percent, 40 percent?

Mr. HANLON. In today's conditions, I would say 30 percent to 50 percent would be very realistic.

Mr. LUETKEMEYER. Okay. That begs the question, then, because one of the problems we have right now is that obviously the Mint can't keep up with the demand as it is, so how would it keep up with the demand in your scenario, if you increased the tax benefits?

Mr. HANLON. That would include all the precious metals, specifically gold and silver. But platinum and palladium have gained a lot of attention because of their continued liquidity in the market.

The fact that the U.S. Mint offers any product makes it that much more popular, makes it that much more liquid.

But if you take the ETFs—the exchange traded funds—for instance, and you see the amount of money that has been invested in that as an alternative investment to securities, it is a massive number. That number in itself, I believe, would be doubled as well if the capital gains tax benefit were applied to that, which it should be. It is ludicrous, actually, that it is not.

Mr. LUETKEMEYER. Okay.

Mr. Nessim, very quickly, in your testimony you indicated that the Mint, whenever they are selling the bullion to authorized purchasers, they limit your profit margin to 10 percent. Is that correct?

Mr. NESSIM. No. This was only applicable to the America the Beautiful silver five-ounce coins.

Mr. LUETKEMEYER. Okay. But they are limiting your profit on that particular issue?

Mr. NESSIM. Yes, correct.

Mr. LUETKEMEYER. But the other issues, other coins that they Mint, there is no limit on the profit?

Mr. NESSIM. No. They are limiting the profit on the America the Beautiful simply because we are requested to sell directly to the public, which—

Mr. LUETKEMEYER. Okay.

Mr. NESSIM. —they never do on the other bullion coins.

Mr. LUETKEMEYER. Very good.

I am about running out of time here, but I just have one quick question: How does our Mint activities and our coinage compare to other foreign countries? Apparently, there are other foreign mints that you are competing against, or working with, or selling other products. Can you give us a gauge on that?

Mr. NESSIM. Yes, they are excellent. They produce more than any other mint. The quality is excellent. The other mints produce a very good quality, but the U.S. Mint is by far the largest fabricator of coins.

Mr. LUETKEMEYER. Okay. Thank you.

I see my time is about up. Thank you, Mr. Chairman.

Chairman PAUL. Thank you.

I yield 5 minutes to Mr. Green, from Texas.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the witnesses for appearing.

Also, I thank the ranking member for his great work in helping us with these issues.

Members and witnesses, excuse me. Let me ask a question about the platinum blanks and the half-dollar silver proof blanks. Is it true that the only manufacturer for these products is in Australia?

Mr. HANSEN. I can best address that—

Mr. GREEN. Yes, sir.

Mr. HANSEN. —as the only manufacturer here. No, there are a number of manufacturers that could be—it could be done here in the United States. The U.S. Mint just hasn't sought them out.

Mr. GREEN. If I may, let me—thank you for that, but rather than get to that point—and we may get there—the question really has to do with what is currently the circumstance. Is it currently the circumstance that this is the case?

Mr. HANSEN. I believe that is correct.

Mr. GREEN. Only Australia. And I think you were about to indicate that it could be done within the United States, notwithstanding the fact that it is not being done within the United States. Is this correct?

Mr. HANSEN. That is correct, sir.

Mr. GREEN. Okay. Now, is it true that until about 1981, we did have a presence in the marketplace with these products? Does anybody happen to remember about when it occurred?

Mr. HANSEN. Are you saying the U.S. Mint was producing its own blanks?

Mr. GREEN. That we had the blanks for the platinum blanks and the half-dollar silver proof blanks. Isn't it about 1981 when we used to do this?

Yes, ma'am?

Ms. DEISHER. The American Eagle bullion coin program was not created until 1986, and silver was taken out of American circulated coinage in 1965. So the U.S. Mint's refineries in silver planchet production really ended in the 1960s.

It was not until the bullion program was created, actually in December of 1985 and they—it took them a year to gear up. But no precious metals coinage had been produced by the U.S. Mint, or struck by the U.S. Mint, during that interim.

Mr. GREEN. How do you account for the absence of a U.S. company in the marketplace with these blanks?

Mr. HANLON. Could I help address that, Mr. Green?

Mr. GREEN. If I may, the lady may have an opinion that I am interested in. I will give each of you an opportunity. I would like to hear the lady's opinion.

Ms. DEISHER. I am not sure I understand your question. Are you referring to the bullion blanks—

Mr. GREEN. Right now, we have an Australian company that produces the platinum blanks and the half-dollar silver proof blanks.

Ms. DEISHER. Yes.

Mr. GREEN. We don't have an American company that is doing it.

Ms. DEISHER. We are aware that there are American companies capable of doing it, but—

Mr. GREEN. I understand, but—

Ms. DEISHER. —we do not know—

Mr. GREEN. I understand. Okay. If your answer is that you don't know, I accept it.

Ms. DEISHER. We have asked the United States Mint and we have not gotten a clear answer.

Mr. GREEN. So you don't have an opinion as to why?

Ms. DEISHER. I do not.

Mr. GREEN. Okay.

Let's move to the question now. It really is, why is it that it is not being done in the United States? I understand we have the capacity and we are capable, but tell me why.

Yes, sir?

Mr. NESSIM. May I answer?

Mr. GREEN. No, the gentleman who is next in line.

Mr. NESSIM. Oh, I am sorry.

Mr. GREEN. I am going down the line. I am sorry.

Mr. HANLON. Ray and I feel—from the same perspective, and I believe that the answer is that the specifications for actually making the blanks for platinum coins or the silver or the gold are fairly stringent, and that creates an issue, according to the Mint, for those who are willing to meet those specifications in exchange for the profit that is made on that particular product.

Mr. GREEN. Because the yellow light is on, let me go to the next person.

Can you give me a brief response there? You were going to give one earlier.

Mr. HANSEN. As the only manufacturer here, I can just tell you simply, the U.S. Mint has not been responsive to requests from my company or others to do the blanks. They don't develop their vendors within the United States.

Mr. GREEN. There are some who contend that this goes back to budget cuts in 1981. Is there any connection to the budget cuts in 1981? Does anybody see any connection?

Mr. HANSEN. No, sir.

Mr. GREEN. Okay.

The next gentleman, please?

Mr. NESSIM. I believe it is a matter of economics. Our parent company is a fabricator of blanks, and we have proposed and offered and sent samples to the U.S. Mint of our blanks. Their specs are very high and their prices are very advantageous, meaning they would shop around and get the best possible price, and from an economic standpoint, if it makes more sense to bring it in from Australia or anywhere else as compared to manufacturing them here it should be done.

Chairman PAUL. Your time has expired.

Mr. GREEN. My time is expired. Thank you.

Chairman PAUL. I yield 5 minutes to Mr. Lucas, from Oklahoma.

Mr. LUCAS. Thank you, Mr. Chairman.

Ms. Deisher, let's run and gun here a little bit in this 5-minute timeline we have. Would you explain to the committee in the briefest of terms your comments about why mint marks are important not just to collector coins but bullion coins, and why for 2,000 years mint marks have been important?

Ms. DEISHER. Yes, sir. It shows the mint of origin, and sometimes there are unequal productions at the facilities so it could possibly create a rarity, but the reason I went to this, especially with the new coin programs coming on and the additional silver, is the problem that I identified on the packaging and the likelihood that secondary market could abuse this also. So it is very important and it was historically the case that the U.S. Mint always identify—or pretty much identified, especially in its precious metals, its gold and silver coinage—

Mr. LUCAS. As have most mints for 2,000 years.

Ms. DEISHER. Yes.

Mr. LUCAS. Second question: The Mint's Web site. You comment about the bandwidth. I assume that means the ability for people in these rushed periods to get online.

From your investigations as a reporter, what kind of capacity do you think the Mint has and what kind of demand, at key points, have they had? What is the ratio in their present configuration?

Ms. DEISHER. It is my understanding they are working to increase that, but I can tell you, every time there is a new collector product offered, and you go to the Web site, people sit there for hours trying to get in and you can't. And then you call on the phone and you are backed up.

I don't know what their peak capacities are, but what happens—I know of instances where people will pay people sitting at home to sit there for hours and hours and hours to try to get in to buy products. And this is ongoing. This has been happening—I remember in 2007, and it was horrendous for the First Spouse programs.

Mr. LUCAS. So it is not just a one-time anomaly.

Ms. DEISHER. No.

Mr. LUCAS. It is a regular problem in peak order periods.

Would you touch on the effect—the entire panel has discussed this 33,000 coin issue and starting and stopping it. From your perspective, not only as a reporter but in a business that sells advertising and watches these various enterprises, could you give us a little insight in the economic impact that this start-stop-sputter situation in this particular case had on real world businesses?

Ms. DEISHER. I would like to submit for the record comments of one of our advertisers, Mr. Mike Folgens, and he very clearly talks about how you have to place advertising months in advance. He lost several hundred thousand dollars in the anticipation it would be business as usual trying to get advertising placed in our publication and others.

When the Mint Director had been talking about how they expected 100,000 of these sets to be produced—and this was in July—it wasn't until December that we learned there were going to be 33,000. Of course, that created a frenzy in the market.

They have another 27,000 blanks that they have decided to make into a collector product. This same thing is going to happen in probably 6 weeks and it will be actually a greater problem because of the low mintages.

These kinds of things—from a collector perspective, if you can't start at the beginning of a program, you are discouraged from ever participating in it again. It is a pattern that we have seen over and over where somehow there is a limited mintage set up for the beginning of a program, there is wild speculation, and then people just get discouraged and stop buying the product on the collector side.

Mr. LUCAS. Could you touch for a moment on the Mint model? And then I have a question for the rest of the panel.

Historically, in 1792 the Mint was set up. You brought your precious metals in, you paid a small fee, and they turned it into the appropriate coins of your request. And then we went away from—I guess the term would be free coinage—to a process where the Mint was a government enterprise stamping out things, meeting demand as requested by the Treasury.

Now, in recent years we have changed that business model again to a more business-oriented model, correct?

Ms. DEISHER. Right.

Mr. LUCAS. Part of the proceeds go into the revolving fund. Would you offer any observations you might have on how going from the previous model where whatever they did did not benefit their operating fund to a model now where the more products moved there a benefit to the direct—to the Mint's fund itself? Could you expand on any of that?

Ms. DEISHER. Certainly, the model that came into play in the mid-1990s is much more efficient and I think it gives the Mint flexibility to plan. Where we see a failure is to plan to avoid the crisis management type things.

It might need some refinement. It is definitely the kind of model in today's world.

Mr. LUCAS. If the chairman will tolerate me just a little bit more, the old lament from the 1980s prior was they didn't want to do anything. Now the lament is because of the different model, they want to do so many things that the typical collector might not be able to buy all of the options they offer. Is that a fair observation from the folks in the country?

Ms. DEISHER. That is a fair observation. When I did an editorial back about 7 years ago, if you purchased one of everything the U.S. Mint produced that year, it would have cost $3,000.

Mr. LUCAS. Impossible for most—

Ms. DEISHER. We did the same analysis this year and it was over $10,000, and because they are not producing platinum that—it would be even higher if they had those. So to be a complete collector today is—collectors are really priced out. You have to select a series if you want to be complete. You can't be a completist today.

Mr. LUCAS. I appreciate the chairman's indulgence on time.

Chairman PAUL. I thank the gentleman.

And without objection, the statement Ms. Deisher referenced will be placed into the record.

Ms. DEISHER. Thank you, sir.

Chairman PAUL. And now, I would like to yield 5 minutes to the gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY. I thank the chairman for yielding and for holding this hearing.

We certainly want to have high-quality coins produced, but on the panel, I believe we have only one person from the private sector, Mr. Hansen, who is working in this area. So I would like to—and I understand in your testimony you came out and said things that you thought the qualifications or demands were too onerous.

So I would like to ask you, what are the factors you would encourage Congress to consider in creating any future bullion coin program? You cited ensuring sufficient blank suppliers so that one coin program's production does not affect the supply of blanks for another coin program. Are there other recommendations that you would like to speak to that you believe would be an improvement on the part of government?

Mr. HANSEN. Mrs. Maloney, I believe that the onerous comment about the blank quality was made by Mr. Nessim, not myself. But the U.S. Mint does have high standards for their blanks. We have always met those standards. The standards are really not that onerous.

The U.S. Mint has a very arbitrary system of accepting blanks, and in the past when we have supplied blanks to the U.S. Mint, we never had any problems with quality, but it has been used as a weapon to kind of limit the suppliers. The U.S. Mint kind of has it in their mind who they want to supply blanks.

The problem isn't with the quality issue. The problem is the U.S. Mint just recognizing that they need more than one supplier and they just need to open it up. And they should be made in the United States, not overseas, if we are providing American jobs.

Mrs. MALONEY. Let's do it. Thank you.

Oh, I think I still have some more time.

Chairman PAUL. Yes, you do.

Mrs. MALONEY. Oh, I have some more time. Okay, great.

Mr. HANSEN. And if I could just make one more comment on it, Medallic Art Company made a substantial investment of many millions of dollars before I acquired them in getting ready to supply the blanks for the U.S. Mint, which they had done for many years, and they were just universally rejected and no logical reason was ever given. They were just basically told, "Thank you, but no."

One reason I acquired the company is because the previous owner had no market for the products, and if the U.S. Mint had accepted us as a blank supplier, we wouldn't be sitting here today. We could supply all the blanks the U.S. Mint would ever need.

Mrs. MALONEY. But then when you got the business, you got them to accept your blanks, right?

Mr. HANSEN. No.

Mrs. MALONEY. Really?

Mr. HANSEN. In fact, I have had many discussions with the previous Mint Director, told him I could supply him with blanks. He just smiled and said, "Oh, okay," and I asked him if he would like to come out and tour our facilities and there was just a deadpan response.

Mrs. MALONEY. So how many companies are supplying the blanks now in America?

Mr. HANSEN. There is one primary supplier, which is a company in Coeur d'Alene, Idaho. They recently added a second one in the United States, which is in Rhode Island. But the two major suppliers are Idaho, and also the Perth Mint in Australia.

Mrs. MALONEY. Australia?

Mr. HANSEN. Australia.

Mrs. MALONEY. Why are we giving preference to Australia?

Mr. HANSEN. That is a question directed to the U.S. Mint.

Mrs. MALONEY. And when they don't—they don't have competitive bidding? They don't have—they just say no to you? They just say you can't do it and they don't give you any reason?

Mr. HANSEN. That is correct.

Mrs. MALONEY. Mr. Chairman, I think we should inquire why and see if we can have a competitive bidding to get the best product at the best price.

And Mr. Nessim, it was your statement that you thought that the standard was too high, if you want to explain that.

Mr. NESSIM. No. It is not too high. It is high, but it should be high and it is comparable to other major mints.

Mrs. MALONEY. Well then, if I could ask you, Mr. Hansen, if you can't sell your blanks to the U.S. Government, who are you selling them to?

Mr. HANSEN. We have our own line of products and we have about 250 people who work at the Mint and we make a lot of products for Congress, too, and the U.S. military. And we have a very active secondary market. We actually compete with the U.S. Mint and we also sell their products.

Mrs. MALONEY. My time has expired.

Chairman PAUL. I thank the gentlelady.

And I will go on to Mr. Schweikert, from Arizona.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

And this one may be a little slightly off topic, but for those of you who also sell larger numbers of product, out of curiosity: Do you buy hedges on the cost of your commodities? That is for—

Mr. NESSIM. What is the question again, please?

Mr. SCHWEIKERT. Buying a hedge. So let's say you are about to order—

Mr. NESSIM. Yes. We do hedge.

Mr. HANLON. Yes. Hedging is part of the procedure, the policy, the business of carrying bullion products, and the whole purpose of hedging, of course, is that we don't play the market, we aren't speculating. So it is an additional cost involved in trading of precious metals, specifically the U.S. Mint bullion coins, in this case.

Mr. SCHWEIKERT. Mr. Chairman, then the second part of the question is, how do you buy a hedge if you are not completely sure about how much product you are going to be acquiring?

Mr. NESSIM. When we know exactly what we are going to buy we hedge that exact—

Mr. SCHWEIKERT. Okay. So you are hedging actually once you know what inventory you are going—

Mr. NESSIM. Otherwise you cannot hedge, yes.

Mr. HANLON. Sir, the point of the hedge in the respect of buying the product is that you buy products to have live so you can provide immediate delivery. So you do know the number of ounces that you are purchasing and that is the same number that you are hedging. In other words, you are taking the opposite position in the market against your long position and so the hedge is a number that you always do know.

Mr. SCHWEIKERT. Mr. Chairman, part of the question was more based—I was concerned that you were having a fulfillment issue of product after time you had already hedged your risk.

Mr. NESSIM. My point in my testimony was that we were informed on the silver five-ounce coins. We were informed of our allocation on one day and then the following day we were told that this is cancelled.

Mr. SCHWEIKERT. Okay. You beat me back to my notes, so—but that was an anomaly that happened?

Mr. NESSIM. Correct. It never happened before.

Mr. SCHWEIKERT. Okay. Is there anything else you would want someone like me to know about how you do those mechanics?

Mr. NESSIM. It is not really significant for that particular purpose, really. It is our problem of hedging or underhedging, but it has nothing to do with improving the Mint's performance, no.

Mr. SCHWEIKERT. Okay.

Mr. Chairman, thank you. That was actually the question I had. I yield back any time I have.

Chairman PAUL. Does the gentlelady from New York care for 5 minutes?

Dr. HAYWORTH. Mr. Chairman, I yield back my time at present. Thank you, sir.

Chairman PAUL. Okay. Thank you.

Mrs. Maloney, would you care to follow up with another question? If so, I will yield to you.

Mrs. MALONEY. Yes, I would.

I was interested, because we are facing a job crisis here in America; we need to employ Americans. And so I was curious—although Australia is a wonderful ally, a wonderful country—why we are doing that.

And I was told that while Gold Corporation in Australia supplies several different precious metal blanks, they are the only supplier of platinum blanks and half-dollar silver proof blanks. So if American companies can't supply what they are supplying, then there is a reason why they are going there.

So I would like to ask you, Mr. Hansen, why you or other suppliers here in America are not making that available to the Mint?

Mr. HANSEN. We have offered. We are qualified to make—and there are a number of manufacturers in the United States that can make blanks, both platinum blanks and silver blanks.

I asked this question directly of the former Director of the Mint and he said it was not a priority for them. They said that this is a global marketplace, and that they source globally, and really their priority was not to source in the United States. That was the explanation that was given to me.

Mrs. MALONEY. Thank you. I wanted to clarify that.

Thank you.

Chairman PAUL. If there are no other questions, this hearing is adjourned. The Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

[Whereupon, at 11:06 a.m., the hearing was adjourned.]

A P P E N D I X

April 7, 2011

Testimony of Beth Deisher, Editor, *Coin World*
before the HOUSE FINANCIAL SERVICES
SUBCOMMITTEE ON DOMESTIC MONETARY POLICY AND TECHNOLOGY

HEARING April 7, 2011, entitled:
"Bullion Coin Programs of the United States Mint: Can They Be Improved?"

Mr. Chairman, my name is Beth Deisher. I am editor of *Coin World,* the largest and most widely circulated news weekly serving collectors of coins, medals, paper money and any objects once used as money. *Coin World* is entering its 51st year of publication and I am in my 26th year as editor.

I would like to thank you and the Subcommittee for inviting me to testify today.

During my career I have been privileged to chronicle the U.S. Mint's bullion coin programs from their origin in the research and recommendations of the Gold Commission in 1982; to the passage of legislation authorizing the American Eagle gold and silver bullion coins in 1985; to the gold bullion first-strike ceremony at West Point on Sept. 8, 1986; and through the twists and turns of the ensuing 25 years.

Since *Coin World's* largest constituency is comprised of collectors, my testimony will articulate the views of collectors, who often also are investors.

The quality of silver, gold, and platinum bullion coins produced by the U.S. Mint is exceptional. However, the marketing of these coins is sub par and is often disruptive to the marketplace.

Most of the Mint's problems in marketing bullion coins are rooted in an ongoing failure to understand who its customers are and why they purchase bullion coins. For example, in 1995 the Mint decided to produce a limited edition 10th Anniversary American Eagle Gold Proof set and include a Proof silver American Eagle bearing a W Mint mark for the West Point facility. Mint officials said inclusion of the special silver Eagle was to "reward loyal customers" with the silver American Eagle as a gift. Perhaps from a general marketing perspective, it sounds good: Offer high-ticket-item customers something special – even give them a gift – and maybe they'll feel good enough and be enticed to purchase more. But also part of the agenda is to entice more low-ticket-item purchasers to "buy up," or move into the higher-priced items for the "gift" inducement. Such tactics in certain specialized markets may be commonplace. But in the numismatic marketplace they are sure to reap ill will and lead to a loss, not a gain, in customers.

The problem for collectors: the Proof 1995-W silver American Eagle was available only by purchasing the gold Proof set. Collectors strive to collect sets or series of coins. They seek completeness. Most have a budget and set aside or earmark a certain amount to spend on their hobby each year. Had Mint officials bothered to look at the sales history of the Proof gold and silver bullion coins, it would have been obvious that far more collectors were buying silver Proof Eagles than gold Proof Eagles. Silver and gold buyers/collectors constitute two different sectors of the Mint's bullion coin market. During 1993 the Mint had sold 403,625 silver Proof Eagles and only 24,023 four-coin sets of Proof Eagle gold. In 1994, the sales ratio of silver Proofs to gold Proof sets was virtually the same.

What Mint marketers failed to understand is that the newly contrived rarity – the limited-issue 1995-W Proof silver Eagles – was a must, not a want for those collectors whose goal it was to have a complete set of silver Proof American Eagles. Those who had been building a collection of Proof silver Eagles and routinely paying $23 in pre-issue, in 1995 had to spend $999 for the Anniversary set in order to obtain the coin, regardless of whether they collected gold coins. The overwhelming majority did not collect gold coins of any kind.

If every Proof American Eagle silver coin sold represented a collector (which we understand was not the case, but nevertheless illustrates the point), it meant that more than 300,000 who bought silver Proof Eagles in 1994 would be prevented henceforth from forming a complete collection.

So why would the U.S. Mint risk alienating 300,000 customers just to "reward" 45,000? The only logical conclusion is Mint marketers did not understand their markets or care about their customer base. They didn't understand the concept of collecting. They did not understand the desire for completeness. And they did not understand that collectors resent being "enticed" (some say blackmailed) into buying coins they don't want or need for their collections.

Today, we know the rest of the story. Only 30,125 of the Proof 1995-W silver American Eagles were sold in the gold Proof sets. Virtually every one was removed from the sets and sold separately. Today it remains the key to the set of Proof silver American Eagle bullion coins. Today the Proof 1995-W silver American Eagle sells for $2,800 to $11,500, depending on grade. But more importantly, only 30,125 complete sets of the Proof silver American Eagle bullion coins can ever assembled. For those who gambled or had the money to purchase in 1995, it became a good investment.

But is it the role of the U.S. Mint to intentionally create rarities? The U.S. Mint is a government factory and it is the only entity authorized to strike U.S. coins. It enjoys monopoly status.

Marketing multi-year bullion coin programs appears to be an area in which the Mint continues on a self-destruct path, in which mistakes made in the first year of offering dramatically reduce sales potential for the remainder of the program. In 2007, the first year for the 14-year First Spouse .9999 fine gold bullion coin program, the Mint limited production to 20,000 Uncirculated and 20,000 Proof versions – setting up a maximum mintage of 40,000. Typically, it offered the coins through its website and dealers and collectors rushed to buy. Dealers and speculators squeezed out individual collectors.

Prices on the secondary market skyrocketed. Many collectors, who were initially enthusiastic, turned away and decided not to collect the series. Mintages tell the story. Sales for the first coin in the series, honoring Martha Washington, were 17,661 Uncirculated coins and 19,168 Proof coins. In 2010, only 1,634 Uncirculated versions of the Jane Pierce First Spouse bullion coin were sold and 3,180 of the Proof version. Setting a high threshold to entry discourages collectors to build sets and continue collecting for the duration of a multi-year program.

The most current example is the Mint's decision to produce only 33,000 of each design of the 5-ounce .999 fine silver versions of the 2010 America the Beautiful quarter dollars. The 3-inch in diameter coins are supposed to be the investment component of an 11-year program honoring five national parks and historical sites annually on the reverses of circulating quarter dollars.

Although the authorization for the giant bullion coins was approved in December 2008, the Mint delayed in procuring a press and testing, resulting in a late production start (Sept. 21) for 2010. Despite the Mint's earlier announcements suggesting 100,000 of each of the five designs would be available to the market, five days before sales to the public were to begin the Mint disclosed it would instead produce only 33,000 for each of the five bullion designs bearing the 2010 date for distribution through its established network of Authorized Purchasers. You will likely hear from others about the problems the Authorized Purchasers encountered in marketing these coins. But again, we have low mintages that smack of contrived rarity, without thought or concern about the long-term consequences of these extremely low mintages. Will disappointed collectors skip the series in the future because they were shut out the first year?

Who wants an incomplete set or to be forced to pay exorbitant premiums for the keys to the series? Even if the coins are widely dispersed into the marketplace, only 33,000 complete sets will ever be possible.

With such low mintages, why did Mint decision makers go forward with an Uncirculated "numismatic" version of the America the Beautiful 5-ounce .999 fine silver bullion coins of an even lower mintage (27,000)? Why not make 60,000 of the bullion version and establish a larger base of buyers? Given that the "numismatic versions" have now been produced, why is the Mint waiting until the spring of 2011 to sell them?

At best, it appears to be a poorly executed program. At worst, it fits the all-too familiar pattern of marketing behavior the collector community has witnessed through the years. The U.S. Mint creates limited-issue coin products and offers a short purchasing window at its website with limited bandwidth or through APs. This fuels speculation. Some people are able to sit by their computers during business work hours and purchase in quantities, thereby shutting out others. Those who successfully obtain the coins race to eBay to sell them at exorbitant prices and high profits. But the vast majority of potential buyers are left with the decision: "Should I continue to collector/invest in bullion coins, or should I use my money for something else?" – and possibly leave the coin market entirely.

RECOMMENDATION: The U.S. Mint should avoid purposely creating rarities.

RECOMMENDATION: The U.S. Mint should spend time and resources to better acquaint its marketing staff with its various customer constituencies for its coin products.

RECOMMENDATION: The U.S. Mint should better inform its customers as to when its coin products are going to be available in the marketplace.

RECOMMENDATION: The U.S. Mint should mint to demand by allowing a certain number of days for collector versions of bullion coin products to be purchased and/or ordered.

RECOMMENDATION: The U.S. Mint should increase bandwidth for its website to facilitate the handling of high-traffic ordering periods.

Another facet of the bullion coin market U.S. Mint officials fail to understand or appreciate is the need for continuity of programs. For example, because Mint management had failed to secure additional manufacturers of silver planchets in 2009 to meet the demand for 2009 silver American Eagles, it said it could not produce the Proof versions for the collector market. Although the Poof versions would have constituted approximately 3 percent of its production, no provisions were made to avoid disrupting an annual program in place for 23 years with a sales potential of about 800,000 coins.

Rising precious metals prices in the last three years have created unprecedented demand for the 1-ounce versions of the silver and gold American Eagle gold bullion coins. Again, failure to secure planchet suppliers and poor planning resulted in uncertainty in the markets as to whether fractional gold bullion coins would be available.

There are collecting constituencies for both the bullion and Proof versions of fractional (tenth-ounce, quarter-ounce, and half-ounce) gold American Eagles. Mint officials announced the availability of fractional gold bullion coins the first week of December in 2009 – virtually too late to obtain them for gifts and well after many collectors had exhausted their pocketbooks during the holiday season.

RECOMMENDATION: The U. S. Mint should secure more planchet suppliers and better plan procurement and manufacturing so as to avoid disrupting profitable and popular coin programs.

RECOMMENDATION: The U.S. Mint should exercise care in scheduling bullion coin sales so that they are more evenly paced throughout the year and not dump coins into the marketplace near the end of the calendar year.

Mint officials also need to take responsibility for better communicating to the consuming public with regard to the coins the U.S Mint produces. For example, the Mint responded to questionable marketing practices, whereby grading services and cable television hawkers sell both bullion and collector versions of its coins as "first-strikes," with a Consumer Alert, now buried in an archive at its website. Although the Mint does not designate any of the bullion coins struck on its presses in regular production as "first strikes" nor does it track the order in which it produces them, since 2005 and 2006 it has turned a blind eye toward the practices of those in the coin market who designate certain coins as "first-strikes" based on packaging and packing slips, or on the dates of product releases for ceremonial coin launch events. Mint officials have stated unequivocally that the date on the box represents the date that the box was packed, verified and sealed, and the date of packaging does not necessarily correlate with the date of manufacture; other numbers on the shipping label and packing slip are used to track the order and for quality control. Yet, many consumers pay high premiums for bullion coins labeled as "first-strike."

RECOMMENDATION: The U.S. Mint should take a more active role in providing the public with consumer alerts regarding any of its products that may be subject to questionable marketing practices in the secondary market.

Today there looms another potential for equally misleading marketing. Currently the U.S. Mint does not use a Mint mark on any of its bullion coins intended for the investment market. While it is true that many of these coins are sold as commodities, there is also a healthy collector market in the bullion coin versions. In the recent past, most of these coins have been produced at one facility. However, due to the continued unprecedented demand for American Eagle silver bullion coins and an increased numismatic production load at the West Point Mint, some silver American Eagle production is being shifted to the San Francisco Mint.

The 2011 production will be the first time in more than a decade that American Eagle silver bullion coins will be produced at both the West Point and San Francisco Mints. American Eagle silver bullion coins were produced at both facilities from 1989 through 2000 inclusive. All American Eagle silver bullion coin production was moved strictly to the West Point Mint in 2001.

It is quite predictable that today's marketers will seek ways to identify those struck at San Francisco and claim they are somehow different or special, based on the shipping boxes or packing slips.

RECOMMENDATION: The U.S. Mint should place Mint marks on all of its bullion coins to identify the Mint of manufacture. Such would preclude misrepresentation and possible fraudulent practices in the marketplace.

As the costs of collecting Mint products continues to rise, it would be helpful if the U.S. Mint would offer as a standard option for all of its bullion coin products the ability to obtain in protective plastic capsules without the presentation "gift" boxes. The box packaging is bulky and costly to store. The majority of coins purchased for collections are removed from their original Mint packaging and are quickly encapsulated as part of the grading process.

RECOMMENDATION: Create a standard protective capsule option for housing all collector versions of bullion coins.

Thank you again for the opportunity to testify. I would welcome any questions you may have.

Statement of Terence F. Hanlon
President
Dillon Gage Metals

Before the

House of Representatives' Committee on Financial Services
Subcommittee on Domestic Monetary Policy and Technology

Hearing on

"Bullion Coin Programs of the United States Mint: Can They Be Improved?"

Thursday, April 7, 2011

Chairman Paul, Ranking Member Clay, and Members of the Subcommittee,

I would like to thank the Subcommittee for the opportunity to appear before it today to discuss the United States Mint's Bullion Coin Program.

It seems appropriate for Congress to take stock of this important program at this time, as 2011 marks the 25th anniversary of the introduction of the American Eagle Bullion Coins. Congress created the world's most successful bullion coin program with its passage in 1985 of the Statue of Liberty-Ellis Island Commemorative Coin Act (Public Law 99-61) and Gold Bullion Coin Act of 1985 (Public Law No. 99-185), which authorized respectively the American Eagle Silver and Gold Bullion Coins. Since the product launches in 1986, the coins have become the dominant bullion coins in the global market for physical bullion coin investments.

Dillon Gage Metals is one of the largest precious metals dealers in the United States. Our Dallas-based firm is proud of its affiliation with the United States Mint (hereafter "Mint"), as a key distributor of its American Eagle gold, silver, and platinum bullion coins. We look forward to the introduction, hopefully later this year, of a palladium coin to the program as a result of Congress' passage last December of the American Eagle Palladium Bullion Coin Act of 2010 (Public Law 111-303).

Over the past 25 years, the Mint has produced bullion coins of exceptional beauty and quality. Their marketing team has built a strong brand for the Mint's bullion coin line of products, which are recognized and desired the world over, and has established an unrivaled distribution network. The Mint is to be congratulated on these accomplishments.

This is an extraordinary time for the global precious metals market as demand for these metals climb, and prices are at or near-record highs. This demand can be traced back to the international financial crisis that began in 2007, and further fueled by economic uncertainty, jittery equity markets, and the looming threat of inflation.

Many investors in physical precious metals products prefer the size and convenience that coins offer, as well as the imprimatur that a national mint provides. Overwhelmingly, investors chose the American Eagle bullion coins, and they do so for three key reasons. First, the coins' weight, content and purity are guaranteed by the United States Government. Secondly, there is a liquid market for these products because of an established network of authorized dealers that ensure a two-way market. Thirdly, the exceptional beauty and quality of the coins make them desirable.

As a result, at times, the Mint has had exceptional demand for its gold and silver bullion products; but it has at times been unable to keep pace with the demand due to an insufficient supply of coin blanks. This has led to disappointed customers and resulted in market-share losses to other Mints' bullion products. The Mint the has taken steps to address its supply difficulties by adding additional capacity, but it still struggles to meet demand, particularly for the silver Eagle bullion coins.

An inadequate supply of blanks caused the Mint to forgo production in 2009 of proof versions of the American Eagle gold and silver coins, because of a requirement that gave priority to the production of bullion coins over proof-collector versions. Fortunately, Congress addressed that problem with its passage of the Coin Modernization, Oversight, and Continuity Act of 2010 (Public Law 111-302), and provided the Mint the authority to produce collector uncirculated and proof American Eagles even in times of unprecedented demand for the bullion versions.

The Mint also experienced problems with its roll-out late last year of the America the Beautiful Silver Bullion Coins. The problem highlighted weaknesses in the communications between the Mint and its Authorized Purchasers and the broader retail dealer community that the Mint relies upon to sell its products to consumers. The Mint should be encouraged to work more closely with its distributors and to have regular dialogue with them. In doing so, it will help the Mint to better gauge the market conditions for their products by hearing first-hand from those making the markets for them.

The anticipated introduction of a palladium American Eagle coin this year will bring a new dimension to Mint's bullion offerings. It will offer investors an attractive price point in relation to gold and platinum, with different supply/demand factors for the metal.

I believe investors would welcome the Mint's resumption of the production of the platinum Eagles this year, which the Mint halted at the end of 2008. Additionally, it would be fitting to mark the 25th anniversary of the American Eagle program with production of a four-coin collector set comprised of a gold, silver, platinum and palladium Eagle coin.

Congress could give a further competitive edge to the American Eagle bullion products by adjusting the capital gains tax treatment of these investments to make them on par with securities. The 1981 passage of The Economic Recovery Tax Act (Public Law 97-34) created a category of collectibles within the Internal Revenue Code, which included precious metals. This change in the tax code caused precious metals investments to be taxed at a different rate than that of investments in equities and mutual funds. As a result, current tax law imposes a maximum rate of 28 percent on long-term gains (investments held one year or more) on precious metals bullion investments rather than the maximum 15 percent levied on securities and mutual funds. By lowering the rate, Congress could substantially boost the market potential for the American Eagles.

Again, I want to thank the Subcommittee for the opportunity to be before it today. I would be pleased to answer any questions you may have for me.

Testimony of Ross Hansen
before the United States House of Representatives Committee on Financial Services
April 7, 2011

Chairman Paul, Ranking Member Clay, and members of the Committee,

My name is Ross Hansen, and I am the founder and CEO of Northwest Territorial Mint. I have personally been in the precious metals business for 35 years, and I founded Northwest Territorial Mint in 1984 as a fully integrated mint. We are the largest non-governmental mint in North America, and we not only produce our own brands of bullion products, but we are also a retailer of a number of different governmental bullion products, including being an authorized retailer of the United States Mint bullion coins.

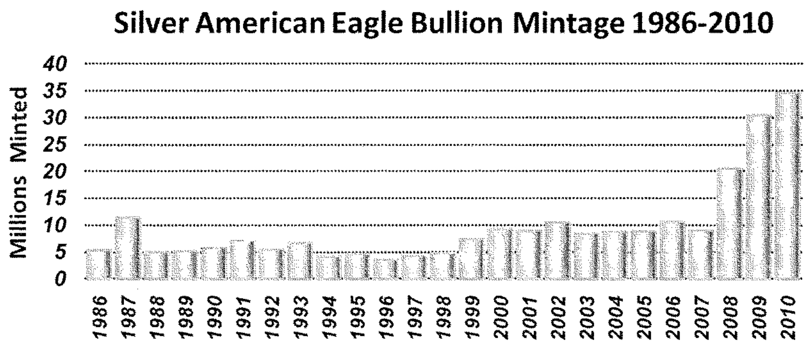
Two years ago, I acquired Medallic Art Company, which was, at one time, a primary producer of silver blanks for the United States Mint.

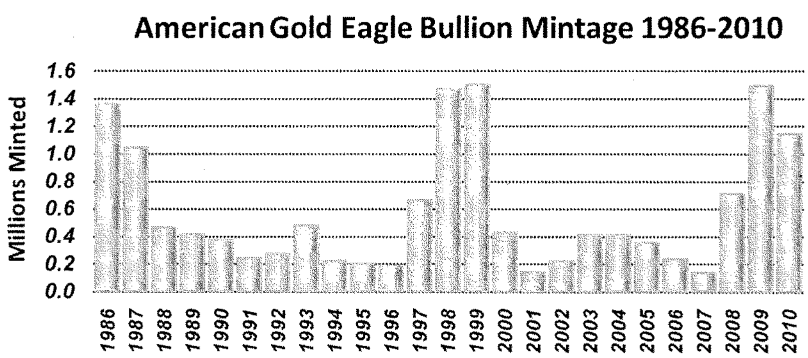
And in full disclosure, my company makes a number of challenge coins for all levels of the military and many government agencies, including numerous members of Congress.

Because of my experience in the private sector, I have been asked to testify before this Committee regarding the bullion coin program of the U.S. Mint.

As you may know, the U.S. Mint began its bullion program in 1986, but it has only been in the last three years that demand for the silver American Eagle bullion coins has exploded to unprecedented levels. Many social and economic factors have contributed to this dramatic increase in demand, not the least of which is the public's perception of an imploding U.S. dollar.

Testimony of Ross Hansen
before the United States House of Representatives Committee on Financial Services
April 7, 2011





In recent years, the U.S. Mint has often been unable to meet the increased demand for its bullion products. The frequent shortage of these products has led to the following problems:

1. The premiums charged by the authorized U.S. Mint distributors have fluctuated wildly.
2. Sales have been lost, which decreases the amount of revenue to the U.S. Mint.
3. The bullion programs of foreign governments have been allowed to penetrate into U.S. markets.
4. These production problems have created a widely held negative perception of the U.S. Mint.

Testimony of Ross Hansen
before the United States House of Representatives Committee on Financial Services
April 7, 2011

The cause of the Mint's inability to make enough bullion product to satisfy demand can be traced directly to its supply chain, specifically, its suppliers of silver blanks. For example, up until recently, the United States Mint was using a single source for its silver blanks. This single source had known limitations in its production capacity and could not expand its production to meet the Mint's needs.

Rather than working to develop a domestic pool of vendors for these raw materials, the U.S. Mint has contracted with the Perth Mint in Australia – half a world away – to make up the shortage. Any business would recognize that this adds to the cost of materials and transportation, and significantly increases the length of time for delivery.

I am not here today merely to point out the obvious shortcomings of a program that I have a high regard for. Instead, I would like to see the American Eagle bullion program continue to grow and succeed. For this to happen, I offer the following solutions for your consideration:

1. The U.S. Mint should **create an industry advisory group** comprised of experienced minting-industry professionals who are intimately familiar with the materials and processes employed by both government and private mints. This group should include suppliers of both the equipment and the raw materials that are used by the industry. This group would be distinct from an existing advisory group that deals with coin *design* issues – the group I am proposing would help with coin *production* issues.

2. The U.S. Mint should **engage in an aggressive vendor-development program** to assure that it has multiple domestic suppliers to meet the Mint's growing needs.

3. As part of the vendor selection, the U.S. Mint should **ensure that its vendors have an elastic capacity**, that is, they have both the ability and the capacity to expand production and supply blanks as needed.

4. The U.S. Mint should **maintain a larger inventory of bullion blanks and finished coins** in order to better respond to surges in demand for its products.

5. And finally, **a change in attitude.** The U.S. Mint needs to adopt a change in its attitude toward the public and industry. They often display an attitude that used to be attributed to the phone company of *"we don't care – we don't have to."* Their attitude toward vendors and authorized purchasers is often described as surly and arrogant.

It is my opinion that these recommendations, if implemented, could help to make a good program into an excellent one that will fulfill its Congressional mandate to produce high-quality bullion products in sufficient quantities to meet the demands of an ever-changing market.

Thank you, Chairman Paul, Ranking Member Clay, and members of the Committee, for the opportunity to share these thoughts with you.

Ross Hansen
Owner and CEO
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800-344-6468

Manfra, Tordella & Brookes, Inc.

April 5, 2011

Testimony by: Raymond Nessim of Manfra, Tordella & Brookes, Inc. , New York
To: The Subcommittee on Domestic Monetary Policy and Technology of the United States House of Representatives - Committee on Financial Services

Re: Bullion Coin Programs of the United States Mint: Can They Be Improved

The answer to the question will always be, yes.
Established measurable goals can always be improved by means of flexibility and transparency.

We are assuming that problems that may have prompted this hearing may be:

a) Current silver Eagle coin supply shortage in relation to unusual current high demand
b) Circumstances surrounding distribution of the 2010 America The Beautiful ("ATB") five ounce silver bullion coin program.

Silver Eagles recent short supply, probably is caused by limited domestic fabrication capacity of silver blanks. This may be addressed by extending some flexibility to US blank fabricators in order help them invest in additional capital equipment for increased capacity, may be simply in the form of minimum quantity order guarantee per annum for a certain period of time, such as, may be three or more years. The Mint requires very high quality standards and rightfully so.

With regard to the ATB silver five ounce coin issue, the problem was not that of distribution but rather that of supply.

The United States Mint ("Mint") has effectively built up great anticipation with the public for the new 2010 Silver sets. General expectations were that the Mint would probably plan to mint during 2010 sufficient quantities to satisfy potential public demand.

Instead, the Mint announced to the Authorized Purchasers ("AP"), only in early December of 2010 that they were able to fabricate only 33,000 sets of 5 coins each and that each AP is allocated 3,000 sets. As wholesale distributors, the day we were notified of our allocation, we proceeded to sell part of our allocation to several retail dealers, as we normally do.

Later that same day or the following day we were informed by the Mint that allocations were cancelled and that the Mint will re-launch the program and accept orders on December 10, 2010. We quickly cancelled our sales agreements, which action placed us in a very embarrassing predicament. The smaller than expected mintage prompted some retail dealers to offer on their websites to the retail public the five ozs silver coins at high prices.

To protect the U.S. public from potential price gouging, the Mint issued new directives on December 9, 2010 to the APs requiring them to:

a) Make available for sale directly to the retail US Public all their allocations.
b) Limit profit margin to no higher than 10 percent.
c) Enforce a limit of one coin of each design for each household
d) Not sell any such coins to neither own company officers nor employees.

Despite the problems it created, considering the circumstances, in our opinion, the Mint made the right decision. As a result, one or two of the APs apparently refused to accept the above restrictions, consequently the Mint increased allocations to the other APs to 3,700 sets.

These directives created at least three problems:

1) Risk of being accused of price fixing
2) Not be able to hedge the silver content of our purchase, which is our norm, consequently be left exposed to silver price risk against potential silver price decline. Fortunately market price has since moved higher. Today our fixed sales price for these coins is below the melt price for silver.
3) As wholesale distributors we were not adequately equipped, at the time, to sell one coin of each design for each household.

Under the circumstances the Mint acted promptly, decisively and did what it had to do to counteract delayed production and limited mintage.

On March 9, 2011 the Mint issued new directives to its APs lifting all sales restrictions upon certification by the APs that they have sold all their 2010 sets in compliance with their directives of December 9, 2010.

If there are any lessons to be learned from this experience with reference to "Can They Be Improved" may be:

a) Providing APs with reasonable notice of price change and minting plans.
b) Minimizing unexpected surprises by means of regular open and transparent communications with APs regarding marketing plans, fabrication or minting obstacles and/or other difficulties.
c) Allowing the Mint more flexibility by lifting some legislative restrictions, allowing them to operate a little more like a commercial entity. For example, may be exceptionally authorizing them to complete contemplated production plans to fabricate remainder of the 2010 coins during 2011, thus avoiding the shortage, this assuming they may have encountered blank fabrication or minting obstacles in 2010.

For example the Royal Canadian Mint, a Crown Corporation, which operates under the legislative basis of the Royal Canadian Mint Act. All monies in Canada are technically issued with the authority of the Canadian Government, however all operations are overseen by the President and CEO, or Master of the Mint, who is the senior executive officer of the organization, reporting to a Board of Directors appointed by the Minister of Public Works and Government Services.

In conclusion and in our opinion, the current middle management of the Mint, be it Bullion, Procurement, Precious Metals, Contracting, Production and Manufacturing, are very experienced, qualified and dedicated individuals. What appears to be void is an experienced senior chief executive with sufficient authority to act and report to a Political Appointee and to a Board of Directors comprised a cross section of specialists with commercial experience, including US blank fabricators and US APs. This will reduce the need to convening a Congressional Committee hearing to address the Mint's macro or micro issues.

Thank you.

Comments from Michael Fuljenz
President, Universal Coin & Bullion
Beaumont, Texas

The recent, on-going problems created by the United States Mint involving sales of new issues of coins can be summed up by the famous line from the Paul Newman movie, *Cool Hand Luke*: "What we have here is (a) failure to communicate." For the past decade there's been a lack of willingness by the Mint to meet with major retailers. For me, this lack of adequate communications has created unnecessary expense and customer service issues because of the Mint's production and delivery problems and indecisions with the America the Beautiful coins and 2009-dated one-tenth ounce gold Eagles. The Mint must communicate with major dealers, not just it's Authorized Purchasers (APs), to let everyone know when procedures are being abruptly changed or delayed for the typical planned release of new coins.

What happens when there's a failure to communicate? Dealers simply can not effectively promote and sell the Mint's new products, and face the undeserved wrath of the public for problems the dealers did not create.

Here's what happened with Universal Coin & Bullion in Beaumont, Texas. The company planned for months to promote and sell the eagerly anticipated five-ounce America the Beautiful Silver Bullion Coins™. As the company has done for over a decade with previous new issues, it obtained commitments from the Mint's Authorized Purchasers to obtain the coins, but when the Mint prohibited APs from following through with Universal's orders it set off a costly chain-reaction of customer service nightmares. Anticipating delivery of the promised coins, Universal spent over $200,000 to purchase cover advertising space in various publications, including a coveted wrap-around ad in *Coin World* magazine. Other major dealers I know -- to their detriment -- did likewise.

Instead of making customers happy by delivering their orders for the America the Beautiful coins, Universal lost money, lost the confidence and trust of customers and now has turned to the Royal Canadian Mint to provide bullion coins for customers even though the company wants to sell United States Mint products.

Universal President Michael Fuljenz estimates his company lost not only the $200,000 in advertising placement costs, but also thousands of man-hours with his staff handling customer complaints about the failure to deliver the advertised coins -- and perhaps lost a million dollars in potential sales of other coins because his staff was busy talking with angry America the Beautiful customers. There's another high-risk element, too: some customers who unfairly blame Universal and other dealers for the Mint's failure to deliver filed complaints against those dealers with the media organizations that carried the dealer's advertising. Some customers threatened to file complaints with the Better Business Bureau and various government agencies because of this issue.

Fuljenz says "The end result is that instead of planning on sales of future America the Beautiful coins, Universal Coin & Bullion has now started to offer Canadian products, such as the new Wolf and Grizzly Bear silver bullion coins. Communications with the Royal Canadian Mint about their products has become better and more reliable for retailers to plan their advertising. I would love to sell more U.S. Mint products, but we need better communication and reliability to plan advertising around the release of U.S. Mint products."

Here are additional, constructive suggestions from dealers who participate in the Mint's Bulk Program.

Release dates should be spaced farther apart. The Mint is releasing proof Buffalo and proof platinum and gold Eagles within a 35 day period; three big programs in a short amount of time, giving little time for dealers to effectively market and fund the coins.

Dealers also need more than ten days' notice about when new issues will be released. Improve the transparency with 30 to 60 days' notice so dealers can plan their advertising and marketing.

Dealers involved with the Mint's Bulk Program also suggest raising the $50,000 credit card order maximum to $100,000, and not put a lengthy, onerous two-to-three week hold on the dealers' credit cards.

We're already in the second quarter of 2011, but dealers and collectors still don't yet know when 2010-dated America the Beautiful special collector versions will be available, how they will be sold and why they were even made.

One more important action for the United States Mint to promptly consider: It's website listing of National and Local dealers contains many incorrect placements. Some of the nation's largest dealers, such as Universal and one of its big Texas colleagues, Heritage Auctions, are mistakenly listed as "Local" when they should be "National." Many smaller, local and regional dealerships are incorrectly listed by the Mint as "National." Some of these problems were pointed out to the Mint months ago, but their website listing has not yet changed. Apparently, there appears to be a failure to communicate and a paralysis to act by upper level Mint management on even simple issues like this.

COIN WORLD
January 10, 2011

GUEST COMMENTARY • BY ED MOY

Editorial mischaracterizes central issues of Mint's ATB efforts

Beth Deisher's Editorial in the Dec. 27 issue, "U.S. Mint moves from bungling to debacle of ATB 5-ouncers," mischaracterizes the central issues, misinforms and misleads *Coin World* readers in several respects, and ignores the devoted service of almost 1,800 United States Mint employees who contributed to the effort of bringing this new coin program to the American public.

Deisher owes *Coin World* readers a far more well-informed presentation of the facts.

When the United States Mint promulgated to authorized purchasers the conditions for acquiring coins under the America the Beautiful Silver Bullion Coins Program, we had some very basic principles in mind to which we are committed to adhering. First of all, we knew we were only going to be able to produce a limited quantity of each coin in the relatively short period we had since going into full production. We also expected that the demand for the coins was going to be significant. Finally, we wanted to ensure the coins would be broadly available to the public at a reasonable and affordable price.

As all are well aware, the global demand for silver has been unprecedented. Compounding that fact are the multiple coin programs we have ongoing that require silver blanks.

Shortly after the America's Beautiful National Parks Quarter Dollar Coin Act of 2008 was signed into law in late December 2008, we began the processes necessary to produce the new type of silver bullion coin — one that was of nonstandard size and weight. Because of the coin's unique size and weight — as well as the edge-lettering requirement — we had to procure a new press to put the coin into production. That took time. Once we found a new 62,000-pound press, we had to install it — a complex task in and of itself.

The press arrived at the Philadelphia Mint on March 8, 2010, and was installed by the contractor. The contractor provided training to Mint personnel and acceptance testing began on April 12. The press passed the acceptance test and the Mint notified the contractor on May 12. We then engaged in the process of refining the dies, collar segments and blank specifications, which resulted in a successful trial strike on July 28.

We then proceeded to conduct a preproduction run, which was completed successfully on Aug. 4. We then provided the blank supplier, Sunshine Minting Inc., the specifications for the blanks, and the company began ramping-up production, over a six-week period, to a rate of 25,000 pieces per week. We were not able to begin actual coin production until Sept. 22.

As for our supply of silver, *Coin World* readers should know first and foremost that we have worked diligently to find new suppliers and to ensure our current suppliers could provide the maximum capacity, and at the quality required, for all of our programs. On Aug. 18, we issued a delivery order for 1 million blanks to Sunshine Minting, the only vendor that had passed first-article sampling at the time. We coordinated the delivery quantities and schedule with Sunshine. Sunshine initially thought it could produce more blanks but, due to capacity issues, the firm had to revise its delivery schedule. It provided as many blanks as it could produce for this program.

Sunshine submitted a revised schedule on Oct. 14 and continued to deliver to its capacity. We approved another firm to supply the 3-inch, 5-ounce blanks, and we issued an order on Nov. 19; however, this firm experienced some issues with the finish and with meeting the specifications (hardness), which affected our ability to make acceptable coins from these blanks. Additionally, we have been in contact with a third supplier. This firm is still reviewing the specifications and considering whether or not it wants to make the investments necessary to be able to produce the blanks.

I am proud that the employees of the United States Mint rose to this occasion. To be quite frank, it's quite easy to be a Monday morning quarterback, critiquing every play that was made on Sunday from one's armchair. However, when you consider the countless factors presented to us — legislation mandating a new bullion coin of an atypical size; acquiring a press that could mint the coin; installing the press and training our people on how to operate it; testing the manufacture of the coins to ensure production quality would meet our standards; finding the appropriate supplies of silver blanks at a time when global demand for precious metals has been at record levels; ensuring suppliers could make the blanks in such a unique size; and then ensuring the public had a fair and reasonable opportunity to purchase a very small amount of the coins — we clearly had some challenges.

I believe the men and women of the United States Mint have met those challenges in the best way possible. The plan we executed was done in good faith and in a manner we felt was the fairest possible.

To characterize our efforts as "bungling" or a "debacle" and alleging that we have long indulged in price gouging is simply untrue. To the contrary, we took the measure of imposing conditions on our authorized purchasers for the precise purpose of making the limited number of coins that we were able to produce under the 2010 America the Beautiful Silver Bullion Coin Program as accessible, available and affordable as practicable to as many members of the American public as possible.

ED MOY is director of the United States Mint.

United States Mint Bullion Coin Programs

Item 1: Availability of Fabricated Silver Bullion Blanks

At the April 7 hearing, a witness testified that the United States Mint could not meet demand for one-ounce silver bullion coins because the bureau had not done enough to develop a group of silver bullion coin blank fabricators with sufficient capacity to meet demand.

The United States Mint's response to the unprecedented increase in demand for one-ounce silver bullion coins starting in the spring of 2008 has been noteworthy. Particular highlights include the following:

1. As shown in Table 1, from a standing start in 2007, when the United States Mint procured just under 11 million silver bullion coin blanks annually, the United States Mint is now able to procure over 38 million blanks annually. This is more than 350 percent of the volume procured in 2007. All these blanks are purchased from companies in the United States.
2. The United States Mint has equipment capacity to manufacture up to 70 million one-ounce silver bullion coins per year.
3. To procure additional blanks beyond the current 38 million per year, the United States Mint has conducted three year-long solicitations since 2007. The United States Mint sent solicitations to 17 potential suppliers, of which four responded. Of these four, one submitted first-article samples that passed United States Mint first-article tests. That supplier began providing blanks to the United States Mint in FY 2011. The list of companies participating in each solicitation is shown in Table 2.

TABLE 1. **Procurement History for Silver Bullion Blanks(1 oz. 99.9% silver)**

Supplier	FY2007	FY2008	FY2009	FY2010	FY2011 (thru 3/31/11)
Sunshine Minting Inc. (SMI)	10,597,848	11,963,289	24,920,397	30,589,965	13,829,033
Vennerbeck Stern Leach (VSL)	157,542	2,218,892	4,571,488	6,801,099	5,523,210
Gardner Specialty Metals (GSM)	0	0	0	0	10,000
Totals	**10,755,390**	**14,182,181**	**29,491,885**	**37,391,064**	**19,362,243**

TABLE 2. **Supplier Participation in the last three bullion blank solicitations**

	Supplier	2007	2008	2010
1	Pyromet	Negative response		
2	Precimet	Negative response		
3	Stonewall Industries	Negative response	Did not bid	
4	Royal Canadian Mint	Negative response	Negative response	Responded/did not pass 1st Article
5	Austrian Mint	Negative response		
6	Italchimici	Responded/did not		

		pass 1st Article		
7	MKS/Pamp Finance	Responded/did not pass 1st Article		
8	Northwest Territorial Mint	Did not bid		
9	POBJOY Mint, Ltd	Negative response		
10	Wolverine Joining Technologies	Negative response		
11	GSM Metals			Awarded Contract
12	The Gold Center, Inc			Did not bid
13	Prince/Izant Inc			Negative response
14	Williams Advanced Materials			Negative response
15	The Highland Mint			Did not bid
16	BASF Chemical Company			Negative response
17	Reliable Silver			Negative response

Item 2: United States Mint Bullion Blank Specifications

At the hearing, a witness suggested that the United States Mint's bullion coin blank specifications were too demanding.

The customers of the United States Mint expect and value the high standard of quality that we maintain for all our products. Part of our quality process is to establish specifications for the precious metal blanks that we purchase from our suppliers. This quality benchmark is one of the reasons that customers have made the United States Mint bullion coin program, in terms of volumes minted and issued, the largest bullion coin program in the world. Table 3 shows our current specifications for one-ounce silver bullion coin blanks.

TABLE 3. Specifications for Silver 1 oz. Blanks

Fineness	0.999 (99.9%)
Content	0.999 troy ounce min
Weight	1.000 troy ounce min
Cut Diameter	1.588 ± 0.002"
Upset Diameter	1.578 ± 0.0022"
Upset Thickness	0.109 ± 0.004"
Flatness	0.004" max dev
Hardness	34 to 41 Rockwell
Roughness	0.13 micron max
Grain Size	35 micron max

Additionally, the surface of each blank must be clean and smooth; free from laminations, tarnish, rolled-in or baked-on oxide, dirt, oils, alloy segregation, roll marks, discoloration, blisters, abrasives rolled-in foreign material, or scratches/depressions/pits exceeding 0.0005" (0.013 mm) in depth.

Item 3: Communication with Authorized Purchasers

Witnesses at the hearing contended that the United States Mint needed to improve our communications with Authorized Purchasers.

The United States Mint agrees communication is crucial and constantly seeks to improve relationships with Authorized Purchasers. The Authorized Purchasers are important to the United States Mint because they carry out our mandate to make gold and silver bullion coins available for sale to the public. We believe that appropriate relationship management requires more frequent communication and dialogue between the United States Mint and the Authorized Purchasers to understand each other's challenges and issues. To facilitate improved communications with the Authorized Purchasers, the United States Mint will conduct an Authorized Purchaser forum by the end of the year at which senior leaders from the United States Mint will meet with members of the Authorized Purchaser community.

Item 4: Low 2010 America the Beautiful Bullion Coin Production

Witnesses noted low production and availability of coins in the 2010 America the Beautiful Silver Bullion Coins Program.

The United States Mint produced 165,000 coins in the 2010 America the Beautiful Silver Bullion Coin Program—33,000 each of five designs. In addition, the United States Mint produced 135,000 numismatic versions of the coin—27,000 of each of the five designs. The unique size and weight of this coin, coupled with the fact that the United States Mint did not have a press capable of producing the coin when the legislation mandating it was enacted in December 2008, presented a number of serious challenges in producing sufficient quantities by the December 31, 2010 deadline. The men and women of the United States Mint did an excellent job of procuring the press, installing the press, establishing a supply chain for the silver bullion coin blanks, and conducting test strikes to learn how to mass produce these large coins. Production on these coins began in September 2010 and continued through December 31, 2010.

We decided to produce a numismatic version of the coins, in addition to the bullion version, because we believed that doing so was in the best interests of all our customers. Not offering the numismatic version in the first year of a 12-year program would have been an irreversible decision.

The United States Mint is producing a minimum of 126,500 of the bullion version and approximately 50,000 of the numismatic version of each of the five designs for 2011.

Item 5: Purchase Terms and Conditions of the 2010 America the Beautiful Silver Bullion Coins

Witnesses at the hearing questioned the terms and conditions that the United States Mint placed on Authorized Purchasers interested in ordering the coins in the 2010 America the Beautiful Silver Bullion Coin Program.

We note at the outset that some of the witnesses at the hearing stated that the United States Mint's adoption of special terms and conditions to avoid exploiting members of the public interested in acquiring these coins was the right thing to do. Our mandate is to serve the public, and we took these measures to carry out that mandate in the best possible way.

By way of background, on December 1, 2010, the United States Mint announced that the 165,000 coins in the 2010 America the Beautiful Silver Bullion Coin Program would be made available on December 6 through its established network of Authorized Purchasers. Between the time the United States Mint announced the release of the coins and the actual release date, the premiums for these coins quickly began to rise in the secondary market. The coins were being pre-sold by some of our Authorized Purchasers with mark-ups as high as 100 percent. Even higher mark-ups, some exceeding 200 percent, were seen on e-Bay.

As a result of complaints from the public, the United States Mint temporarily suspended the release of the coins and explored alternative distribution strategies. The United States Mint established terms and conditions that were prerequisites for the Authorized Purchasers to participate in the purchase and distribution of these coins. These terms and conditions were intended to ensure, to the maximum extent possible, that coins in the 2010 America the Beautiful Silver Bullion Coin Program would be available, accessible and affordable to the public. For example, the Authorized Purchasers were required to resell the coins to customers at no more than a 10% premium over their cost from the United States Mint plus any reasonable shipping and handling fees.

On December 9, 2010, the United States Mint sent revised selling procedures to its Authorized Purchasers. Authorized Purchasers were required to establish and enforce an order limit of one coin of each design per household. A household was defined as all persons of a family, or living as a family, at a single mailing address, meaning that each customer could purchase a maximum of five coins from any one Authorized Purchaser.

The coins in the 2010 America the Beautiful Silver Bullion Coin Program were sold to active Authorized Purchasers beginning Friday, December 10, 2010, on an allocation basis.

The terms and conditions required by the prevailing market conditions in December 2010 were not required for the coins in the 2011 America the Beautiful Silver Bullion Coin Program, which went on sale in late April 2011.

Item 6: Selling Bullion Directly to the Public

A witness at the hearing suggested that the United States Mint sell bullion coins directly to the public.

The United States Mint believes that selling bullion directly to the public in large quantities is currently not feasible. The United States Mint presently has neither the order management system, nor the trained trading staff, required to manage a complex commodity sales function. Additionally, implementing a new direct sales program would require additional expenses in staffing and fulfillment. These expenses would have to be recovered by increasing the premium charged to the customer. Significantly, foreign mints that produce bullion coin products use the same type of distribution system as the United States Mint.

Item 7: Bullion Coin blank purchases from companies located outside the United States

It is important here to distinguish between the purchase of precious metal for gold and silver bullion coins and the purchase of services to fabricate the precious metal into the blanks we use to mint gold and silver bullion coins. All gold acquired by the United States Mint for the manufacture of bullion coins is acquired from newly mined sources in the United States, as the law requires. The vast majority of silver bullion is purchased from domestic sources. However, a small percentage is purchased from other sources when it is not economically feasible to obtain it from domestic sources, as the law allows. In FY 2010, the United States Mint purchased a total of $2.7 billion of gold and silver. The cost of acquiring the services to fabricate this gold and silver into coin blanks is less than 1.3 percent of the total cost of the finished gold and silver bullion coins. In FY 2010, the United States Mint procured about $28.6 million in gold and silver bullion coin blank fabrication services from domestic firms. In FY 2010, the United States Mint procured about $5.8 million in gold and platinum bullion coin blank fabrication services from foreign firms (we do not purchase any one-ounce silver bullion coin blank fabrication services from foreign firms).

Item 8: Outdated Numismatic Product Ordering System

Witnesses testified at the hearing that the customer ordering system was inadequate.

Although our current order management system does not affect our bullion programs, improving our current order management system, which services our direct sales of numismatic products to the public, is a priority in 2011. Our plan is to be online with a new system by mid-2012.

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