



9 July 2002

Ms B Forbes  
Committee Secretary  
House of Representatives  
Standing Committee on Industry and Resources  
Parliament House  
Canberra ACT 2600

Dear Ms Forbes

Lion Selection Group is a listed Australian mining investment company whose team has been involved with raising money to fund Australian exploration companies for almost 20 years:

- 1983 to 1997 J B Were, Stockbroker
- 1997 to present Lion, Investor

Lion raised \$100m in 1997, at the peak of the last resources boom, to fund exploration by Australian companies. Despite wonderful exploration potential in Australia we are pessimistic about Australia's potential for exploration and future development of mineral deposits. Exploration and mine development are high risk, capital intensive and price taking enterprises that have very long lead times of at least 5 and up to 15 years.

Significant global and local changes have taken place over the last decade. These are structural problems forming a very complex larger issue which we at Lion cannot suggest any simple quick fix solution. We hope that your inquiry can begin a process of change and we would be pleased to illuminate any of the points attached if required.

Yours sincerely

**Robin Widdup**  
Managing Director



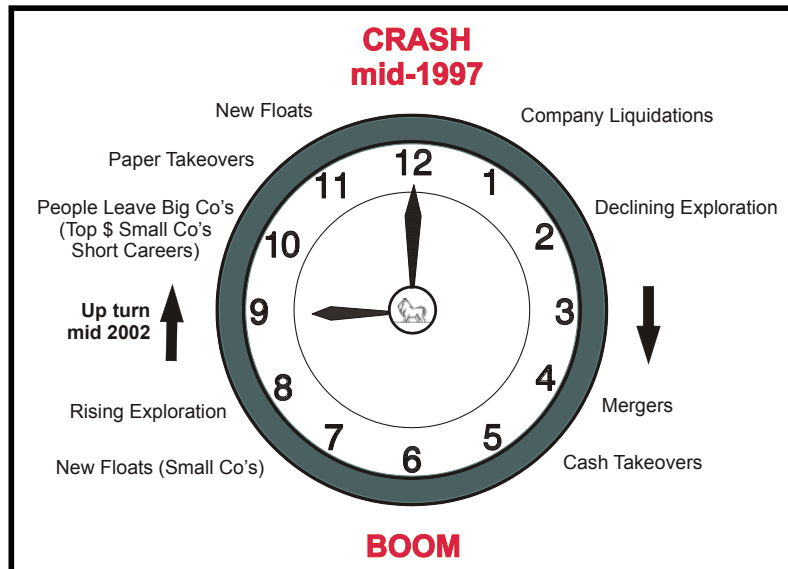
## **INQUIRY INTO RESOURCES EXPLORATION IMPEDIENTS - Submission from Lion Selection Group**

Australian mineral exploration expenditure has fallen over the last 5 years for a variety of reasons that can be classified into 2 groups:

- Cyclic reasons.
- Structural reasons.

### **Cyclic**

Mineral exploration is extremely cyclic with each cycle lasting from 5 to 10 years. The last full cycle was 10 years from 1987 to 1997, the one before 1980 to 1987, then 1974 to 1980 and so on. The exploration clock below was put together to explain this relationship to resource equity markets while the Lion team worked at J B Were and was floating Acacia Resources and Lihir in 1995:



It is important to realise that sentiment drives this clock and this is fed by a couple of major factors:

1. Commodity prices – mainly gold.
2. Exploration success.

In equity markets perception is reality and exploration fell dramatically after mid 1997 when the resource boom of 1994-1997 was dramatically terminated by the Bre-X scandal. (A Canadian company that apparently faked exploration results in Indonesia).



The perception after the Bre-X scandal was that all explorers are rogues. Worldwide exploration fell from US\$5.2 Billion in 1997 to US\$2.2 Billion in 2001.

<b>Exploration Spending: Gold and Minerals</b>						
<b>US\$m (Metals Economic Group)</b>						
	<b>1991</b>	<b>1995</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Latin America</b>	230	780	1,170	814	720	665
<b>Australia</b>	350	520	673	495	404	400
<b>Africa</b>	80	310	620	494	377	295
<b>Canada</b>	420	320	436	308	300	348
<b>USA</b>	330	290	365	280	260	235
<b>Pacific / SE Asia</b>	120	250	440	266	200	196
<b>Total</b>	-	-	5.2Bn	3.5Bn	2.8Bn	2.6Bn

As you can see Australia fell with the tide. We are predicting from our exploration clock that improvement is underway and Australian mineral exploration expenditure will improve.

Summary: There is nothing you can do to influence the cycle, it is about to turn up. Unfortunately the upturn may be weak due to structural problems.

## **Structural**

A number of factors are “one off” and are expected to permanently reduce mineral exploration expenditure in Australia:

➤ **Alternative choice.**

Until around 1990 explorers had little choice of country it was either Australia or Canada. After 1990 South America, particularly Chile opened up as an attractive new region, followed by parts of Africa and the old CIS.

All of these new regions have higher political risk than Australia but in many cases the new countries have better tax/financial arrangements and may additionally have existing projects that do not need exploration to find them.

➤ **Globalisation**

Three companies (RIO, BHP, Anglo) have grown through acquisition to dominate world mining. All three have cut exploration and do not need to explore to grow. These companies may in fact benefit by a long term decline in mineral exploration as commodity price rise. Unfortunately for Australia these companies have grown by taking over medium sized Australian companies that were committed explorers.



➤ Lack of Success

A peculiarity of exploration is that large new discoveries frequently come when expenditure is near to cycle lows. The unfortunate part of this for Australia is that these successes are currently coming from Africa, South America and South East Asia – not Australia.

➤ Size

In previous cycles, funds for exploration came from investment institutions in Australia, Europe, North America and sometimes Hong Kong/Singapore. Global forces have shrunk fees and forced growth of investment fund size. These Institutional investors are now so large that exploration companies are too small to reach investment size. Brokers have not yet accessed private investors to fill this gap.

➤ Perception/Native Title, etc.

Mining suffers from an “Old Economy” and dirty image that is frequently attacked by environmental and other anti mining groups. Native Title concerns have compounded these issues in investors minds and the whole framework is too difficult for investors to understand. The result is no or low investment.

➤ ASX

In the 1980’s the ASX was 35% resources today it is below 10%. After BHP the small resource companies are so small as to not matter. International investors no longer look to Australia to get a resources weighting as they can get it all in London from listings of RIO, Anglo and BHP.

Furthermore on 8 July the ASX stopped the old Gold, Resources and Other Mining Indices – these companies have just lost their home.

## **Summary**

The structural problems above will have a long term negative impact on Australia which currently has a world class mining industry in terms of technology and particularly in exploration. Decline will be seen in a wide range of support industries from geological and drilling contractors, mining and construction contractors through to banks, brokers, lawyers and accounting groups. This will culminate in Australia falling from its position as a global mining centre.

The industry is not sufficiently unified to defend itself and needs a guiding hand. Traditionally this assistance has come from the major Australian mining companies – but through globalisation these groups are no longer Australian and their objectives may be opposite to small miners and explorers.