

House of Representatives Standing Committee on Industry and Resources

Inquiry into Resources Exploration Impediments

1. INTRODUCTION

This submission is made on a personal basis, although the writer is also the Chair of the South Australian Government's Resources Industry Development Board and a Director of the Aus IMM, as well as other industry-related bodies. Whilst not representing these organisations, the submission generally accords with their views.

The writer has a 35 year background in the resources industry (see career profile, attachment A), which includes responsibility for six years for CRA Exploration (then probably the largest single exploration entity in the world) and as the first Managing Director of Rio Tinto-Australia and Managing Director of the Normandy Mining Group, when it was an active explorer, with a budget of around A\$70m p.a. I believe that this and my academic background in economic geology has equipped me with a useful perspective on this question.

2. SCOPE

This submission does not aim to comprehensively cover the field, as others will do, but to concentrate principally on the existing and future impacts of globalisation and rationalisation of the industry on exploration in Australia. I have taken the liberty of enclosing an extract (attachment B) from very relevant addresses which I have authored and delivered earlier this year to the Northern Territory Branch of the Geological Society of Australia and the South Australian Chamber of Minerals and Energy; they have also been quoted elsewhere.

The approach I am adopting in this submission is to focus on the sustainability of the Australian minerals industry, as a cornerstone of the national economy and dominant component for our exports. Concerns have mainly been concentrated on the increasing difficulty in gaining access to land for exploration and there is no doubt that the Native Title Legislation has greatly compounded these problems. The principles of fairness for Aboriginal traditional owners are, however seldom disputed and progress is being made by negotiation direct with Aboriginal groups, rather than through the legislation; eg through the ILUA process.

3. ENVIRONMENTAL RESTRICTIONS

Successive State of the Environment Reports by Federal and State Governments have revealed that the minerals industry has played and is playing little part in the major environmental problems impacting Australia and its biodiversity; it scarcely appears as an issue. Nonetheless, it is well accepted that the impacts of mining can be severe, although the areas effected are usually relatively small and that the industry has made great progress in limiting environmental degradation in recent times.

Much of the improvement comes from effective self regulation and as the Chair of the Environment Committee of the Minerals Council until recently, I had a very close involvement with development of The Code for Environmental Management.

Another area where the industry has made great strides environmentally is in exploration, where sophisticated airborne geophysical techniques (often developed in Australia) mean that the process is even less invasive for the environment, as well as providing more quickly and cheaply penetrative data to investigate rock units beneath the extensive cover over much of Australia's prospective geology.

In these circumstances, it makes no logical sense to exclude exploration from vast tracts on environmental grounds. Mining also can often (but by no means always) proceed with appropriate safeguards and the principle of multiple land use needs to be embedded in our environmental thinking. This is not to say mining should be allowed everywhere, because heritage, social and environmental values will sometimes be paramount, but stopping exploration over much of the continent will do virtually nothing to help our current land degradation crisis.

4. GLOBALISATION IMPLICATIONS

The challenges, which globalisation brings to the industry (and to exploration as its principal research mechanism) are numerous and often irreversible. The question for Australia is how to ensure that a thriving minerals industry continues to operate to the national benefit into the future. This inevitably means replacing the minerals inventory as it is consumed.

The perspective of a large global minerals company may well coincide with the national interest in this respect; but increasingly this will not always be the case. Replacement of the corporate inventory in Australia can come from discovery, development or acquisition of resources in other countries. There is no over-riding imperative to explore in Australia, either rationally or emotionally; most corporate top leadership in the minerals sector neither resides in Australia, nor is Australian in origin nor are technical by discipline.

The trend is likely to further compound this disjunct away from exploration, which is already manifest in vastly reduced exploration budgets for Australia over the last five years from the corporate majors, like CRA/RIO and BHP. The mid-sized companies like North and Normandy are now rationalised within larger groups and their exploration spending will not be cumulative to exploration commitments of the global corporations.

The global majors are in the throes of a commendable Global Mining Initiative, focusing on sustainability, which addresses the need to consolidate the "licence to operate" in a changed world, where high standards of social and environmental performance are required by government, community and investors. Australian industry is in the van, although the organisational focus is strongly moving to London in the form of the ICMM.

An important but low key subject of this process is the long term industry problem of declining real terms commodity prices, caused by excess production capacity. The rationalisation of companies does address this issue, but will not remain effective if exploration continues to turn up new orebodies, which then translate into incremental production. It is therefore not always in the interests of the globalised majors to foster exploration, just as it can also be attractive for them to lift sustainability barriers in order to keep out new entrants, not just to improve social acceptability.

5. EFFECTIVE RESPONSES

In many ways, this syndrome can benefit Australia, as a secure and responsible base for mineral production and value adding. However greenfields exploration is threatened, especially when "Native Title fatigue" is added to the equation.

How then can Government encourage greenfields exploration and mineral inventory replacement in Australia? Certainly, parochial and restrictive policies and regulations will not be effective, where there is choice in where a corporation can operate. However, at the most senior levels of Government and corporations, it can be made clear that the utilisation of Australian resources brings with it a good corporate citizen obligation to expend funds in replacing this inventory by exploration in Australia. Concessions on depreciation and taxation rates could, as an example be linked to levels of greenfields exploration for mines.

The second response revolves around encouraging regrowth of the mid-sized Australian companies as a sector. The most effective mechanism is through increasing quantities and efficiencies of exploration by the smaller companies. These companies are also increasingly providing the nursery for prospects, which are then taken up by the larger corporations.

The technical lever for this enhancement can be provided by encouragement of improved techniques throughout research and development and by Governments continuing to generate at their expense the high quality geoscientific data (as with TEISA in South Australia) that underwrites continued innovative greenfields exploration.

The financial lever can be provided by favourable tax treatment for such exploration, especially recognising the lack of deductibility within small companies without a production base. Such incentives can be passed through to investors, as with the flow through share scheme in Canada.

Without such a regime of stimuli, the minerals industry in Australia will inevitably (and largely imperceptibly) erode.

Dr Ian Gould
37 Marlborough Street
College Park SA 5067

Phone 08 8132 0386
Fax 08 8132 0387
Email iangould@optusnet.com.au
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CAREER PROFILE

DR IAN GOULD

Ian Gould was born in Sydney in 1945 and holds BSc (Hons) and PhD degrees in Geology from the University of Sydney. He is a member of the Board and a past Vice-President of The AusIMM.

In 1973 he joined North Broken Hill Ltd's exploration division after a period with the NSW Geological Survey, the University of Sydney Department of Geology and Geophysics and small exploration companies, and later took responsibility for North's marketing activities.

In 1980, Dr Gould began his 17 year association with the CRA Group as Executive Manager - Planning for AM&S and in 1982 - as Managing Director of AM&S Europe based in Bristol, UK - headed CRA's European lead and zinc smelting and manufacturing division.

In 1986 he returned to Australia as Managing Director of Comalco Mineral Products based in Brisbane and was responsible for the group's alumina joint ventures and the Weipa bauxite and industrial minerals operations in Queensland.

In 1989 Dr Gould became a Group Executive of CRA - initially responsible for CRA Exploration and later for CRA's Asian trading entity, research, development and technology activities and group occupational health, safety and environmental affairs. He became Managing Director of Rio Tinto - Australia in 1997.

Dr Gould was appointed Group Managing Director of Normandy Mining Limited in October 1997 based in Adelaide and served as Executive Chairman of the Normandy NFM and Normandy Mt Leyshon listed gold subsidiaries and of the Australian Magnesium Corporation. He retired from the Normandy Group in April 2000.

In November 2000 he became Deputy Chairman of Western Metals Ltd and Chairman of the South Australian Resources Industry Development Board.

He is a past National President of the Royal Flying Doctor Service and is currently a Vice President of the Central Section of the Royal Flying Doctor Service and Chairman of Saint Andrew's Hospital and Treasurer of the Daw House Hospice Foundation in Adelaide.

Dr Gould was long term Chairman of the Minerals Council of Australia's Environment Committee and a Commissioner of the Australian Heritage Commission. He is Chairman of the AJ Parker Co-operative Research Centre for Hydrometallurgy, the Australian Centre for Mining Environmental Research and of the Commonwealth's Australian Biological Resources Study Advisory Committee.

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SUNSETS, ECLIPSES AND GLOBALISATIONS

Extracted from: An Address by Dr Ian Gould to the South Australian Chamber of Minerals and Energy

Breakfast Meeting, Adelaide, 19 April, 2002

IS THE SUN REALLY SETTING?

Indeed, all Australians should hope not, as our lifestyle would surely be facing extinction; the passing of the industry would not herald a new smart dawn as some assume, but a long, cold economic night.

Any passing cloud in the mineral sky is usually pronounced an eclipse, if not a sunset and we have seen a string of such false predictions, including by elaborate manufacturing, tourism, Hitech, Biotech, IT and others, but these have proven to be worthy companions, not replacements of the mining and processing industry.

Many of these new and welcome sectors have rapid rates of growth, but it will be a long time, if ever, before they approach the \$55 billion of exports of the minerals-based industry. Our industry is also generating substantial export value from its own IP, with most mining systems used internationally emanating from Australia.

Why then is our mining sun proving to be even more persistent than the one that refused to set on the British Empire, when the Atlas was mainly pink? The answer lies in two underlying comparative advantages.

Firstly, we have a large landmass, similar to the USA, with the population of South East England. If we were a car, we would have a high power/weight ratio.

Secondly, we have built up a team of first rate mineral industry practitioners; using the car analogy, we have expert designers, mechanics and tuners.

This should be a winning formula, but what about the drivers?

OUR INDUSTRY IS NOW FACING FUNDAMENTAL CHANGE

What are these changes and how are they impacting on us? :

- a) Rationalisation – fewer players;
- b) Globalisation – decisions made outside Australia;
- c) Sustainability – reputational repositioning.

To understand this let's look at the broad context facing the mineral industry majors:

- Internationally the sector is close to the threshold of the relevance radar (smaller than Microsoft, etc);
- It is standing on the thin ice around the edge of the growing ethical investment pond;
- Overall it earns poor returns on assets invested, with only a few special orebodies or well ordered markets delivering serious profits;
- Prices in real terms are continuing a long decline, especially those for terminal markets;
- Local currency fluctuations (and hedging positions) change competitiveness drastically, adding to unpredictability;
- Demand for mineral and energy products is still growing, but the rate of growth has slowed;
- Supply is fragmented, entrenched in sunk capital and, for most commodities in considerable capacity excess;
- Resources are not scarce, with orebodies awaiting development and exploration has demonstrated it can find more.

If this were a business school exercise scenario, what might be a rational response?
Can I suggest:

- Rationalise and consolidate production and reduce the number of companies;
- Focus on the existing big, profitable orebodies;
- Acquire any of these that are available, either developed or undeveloped and concentrate any exploration on potential mega orebodies;
- Reduce capital, discretionary and longer term based spending;
- Reduce exploration spending, so the supply pipeline eventually dries up;
- Balance buyer power with fewer, stronger sellers;
- Lift the hurdles of environmental and social performance in the industry, which:
 - Improves community and investor reputation;
 - Consolidates the 'licence to operate'.....but also;
 - Shuts out poorer, smaller producers who cannot comply with the new standards;
 - Impedes new entrants, especially emerging companies in developing countries.

This would be a good outcome for the globalised corporate industry and is compatible with the largely commendable 'Global Mining Initiative', now centred in London.

What does such a scenario mean for Australia and its minerals industry professionals?

Like the curate with his egg, we want to make the best of a mixed result. In looking at the downsides, we must always accept that a strong, profitable, responsible and well financed minerals industry is in the national interest, whoever owns it. Does it really matter that the industry in this country will not be Australian owned or controlled or even prioritised as we would prefer? In the short term, probably not, but what of that threatened sunset in the future?

Decisions involving Australia will be simply part of a set of global options and our objective must be to become the preferred option and influence the decision making. Branch office blues or paranoid, parochial rebellions however will not achieve this. Remember mining is less popular than bank robbers like Ned Kelly, although still ranking ahead of the banks themselves. Neither did the Eureka stockade enjoy widespread community participation when the bullets were flying at the miners and that is unlikely to change now. Playing to our considerable strengths and not being seen as a soft touch will, however be essential for a successful role on the global stage.

PRESERVING OUR OPTIONS

Surely above all, we need a mechanism for preserving and protecting our national options for the future; to grow our industry if and how we wish and to differentiate ourselves from competitor nations by reputation and effective self regulation (like the Code for Environmental Management) and by real performance on the ground.

This involves continued high levels of commitment by Government and corporations to activities which are intellectually based and do not bring results tomorrow - but cost today. Exploration must not wither and small companies with entrepreneurship (often beneficially in partnership with the large corporations) should be encouraged to repopulate the successful middle ground now so comprehensively rationalised. R & D on better, cleaner ways of processing minerals and in minimising environmental damage must fizz, not fizzle. Initiatives with stakeholders, including indigenous people, must drive forward to give welcomed access to land and overcome the 'its all too hard' syndrome.

THE GOOD CITIZEN – OR UNWELCOME HOUSE GUEST

There has been a robust tradition of good corporate citizenship in many of our mining based companies and this will have a vital role to play in the globalising scenario. Directed philanthropy must not fall into the black hole of cost cutting, often to be seemingly transmuted into executive bonuses, nor must the networks of the overseas sourced or located top management results in an unintended drift towards preference of people they know, to the detriment of established local expertise. This is not a conspiracy theory- we all know that 'this is the way it works', nor is it a covert

justification that second rate Australians and Australian institutions should get preference. We must learn to collaborate with the best expertise, wherever located.

It is however, a plea that appropriate support continue to be provided so that Australians will be able to remain competitive in the future. Slashed exploration budgets and closed facilities for R & D and training will not provide much comfort for the industry professionals, governments – or indeed the community in general.

The extraction of finite mineral and energy resources by entities controlled outside the host country has historically never been popular anywhere. The best allies the globalised corporations can have is the Australians working in the intellectual and decision making areas of their industry. The most successful mineral corporations will be those that are welcome where their profits are made – and currently the biggest slice of corporate profits from the world's three largest mineral companies seem to be made in Australia, principally in the iron ore, coal and alumina sectors.

THE WAY FORWARD

The Federal Government's action to prevent the Shell takeover of Woodside is an amber light and the Opposition is even more sceptical about the rationalisation parade, no matter whether it is called a takeover, a merger or globalisation. Artificial employment quotas and xenophobic regulations are, however not the way forward, nor are tax rulings that virtually preclude Australian headquarters or discourage investment in small exploration groups. Instead, governments have a big responsibility to get the message across about the seriousness of their expectations for good corporate citizenship and the sensitivity expected in dealing with community and national issues. In my experience, these understandings are best achieved at the highest levels, face to face.

If globalised corporations working with governments cannot achieve this balance, the mining industry in Australia will inevitably be painted as an exploiter when the time and circumstances suit to be so condemned. The foreign ownership card will be played, together with the environmental card ("take the profit and leave the mess"). It is therefore in the environmental rehabilitation area that the globalised industry can make its most effective contribution to real and perceived good corporate citizenship. This will involve transparent self regulation, continued research and transfer of technology and successful practice on the ground.

I believe the globalised operators will do the right thing, as sensible businesses and ethically as people and the sun will stay miraculously suspended above the horizon for Australian mining – but it would help to ensure this happens if we all become alert but rational activists for a traditional Australian "fair go".

Ian Gould