



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON INDUSTRY AND RESOURCES

**Reference: Resources exploration impediments**

WEDNESDAY, 30 OCTOBER 2002

PERTH

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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**HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON INDUSTRY AND RESOURCES**

**Wednesday, 30 October 2002**

**Members:** Mr Prosser (*Chair*), Mr Adams, Mr Fitzgibbon, Mr Gibbons, Mr Haase, Mr Hatton, Mr Randall, Mr Cameron Thompson, Mr Ticehurst, Mr Tollner and Dr Washer

**Members in attendance:** Mr Haase, Mr Hatton, Mr Prosser, Mr Cameron Thompson, Mr Ticehurst, and Mr Tollner

**Terms of reference for the inquiry:**

To inquire into and report on:

Any impediments to increasing investment in mineral and petroleum exploration in Australia, including:

- An assessment of Australia's resource endowment and the rates at which it is being drawn down;
- The structure of the industry and role of small companies in resource exploration in Australia;
- Impediments to accessing capital, particularly by small companies;
- Access to land including Native Title and Cultural Heritage issues;
- Environmental and other approval processes, including across jurisdictions;
- Public provision of geo-scientific data;
- Relationships with indigenous communities; and
- Contribution to regional development.

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**Committee met at 9.30 a.m.**

**CLEGG, Mr Duncan, General Manager, Development, Woodside Energy**

**GERHARDY, Mr Steven, Commonwealth Approvals Coordinator, Woodside Energy**

**KANTSLER, Dr Agu, Director, New Ventures, Woodside Energy**

**OLIVER, Mr Greg, Senior Environment Adviser, Woodside Energy**

**TUDOR, Mr Frank, Marketing and Commercial Services Manager, Woodside Energy**

**CHAIR**—I declare open this public hearing of the House of Representatives Standing Committee on Industry and Resources and its inquiry into impediments to exploration. This is the third public hearing. I welcome the members of Woodside Energy. Do you have anything to say about the capacity in which you appear?

**Dr Kantsler**—I have responsibility for exploration in Australia and internationally.

**Mr Clegg**—My responsibility covers development of exploration discoveries through to the final investment decision to execute those projects in Australia.

**Mr Tudor**—We have responsibility for marketing all of Woodside's liquids—LPG, condensate and oil.

**Mr Oliver**—I look after the interfaces with government on exploration and development approvals.

**CHAIR**—Would you like to make a short opening statement before we proceed to questions?

**Dr Kantsler**—Woodside welcomes this inquiry and we thank you for the opportunity to attend the hearing. For some time we have been pointing out several important issues concerning the future of Australia's oil and gas industry. Declining oil self-sufficiency and the implications that has for energy security and our balance of payments is foremost. But there is declining exploration interest in the country despite the relatively underexplored nature of many offshore areas. Long-term gas supply security for the eastern states and the difficulty of getting gas to shore from Australia's large but remote gas fields is also another area that we think about quite a lot. We believe that there needs to be more attention paid to the opportunity to extract greater wealth from our large gas resources through more China-LNG type deals and value adding processing.

Our written submission includes a table describing the factors affecting exploration decisions and their status within Australia. Our exploration success rates to date have been low by world standards and the average size of oil discovery has been relatively small. Australia has higher gas prospectivity, but the challenge there is to find markets to underpin the high development cost. Global competition for capital is increasing as more areas around the world, which were very lightly explored or have large resources to offer, become open for business. A significant factor here is that many of the countries, which have large underdeveloped or poorly developed

resources, are open for brownfield oil development so whilst you make a lower rate of return there is no exploration risk. We are talking about huge volumes of oil and gas waiting to be developed.

Despite regular government commitments to reduce red tape, the approvals process in Australia is becoming more complex and lengthy and that adds to the cost and to the development risk. Australia's fiscal regime is unattractive for high risk, deep water or other frontier exploration and the development of marginal fields. Sovereign risk is an advantage but that is declining as other countries become more stable and implement fiscal and legal reform.

The submission also makes a subtle but important point—that is, we believe strongly that this committee should not limit its focus to the approvals processes or other factors directly related to exploration. Impediments to development are also impediments to exploration and they should be considered in this review because if you cannot develop what you find or it is difficult it makes the decision to explore that much more difficult. For many companies, development terms would probably have a greater weighting than exploration terms when it comes to deciding where to invest your exploration dollar around the world.

There is not a lot that the government can do about Australia's geological potential or the increase in overseas competition for capital. But our submission does put forward a number of proposals for improving the approvals process and the fiscal regime: in particular, providing greater flexibility in the acreage award process and funding for government agencies to assess the prospectivity of underexplored basins. For some of the high risk acreage, it would be really good if there was an over-the-counter system for doing business. These are not areas where there is a huge amount of competitive interest but if a company feels it has an idea that it would like to explore I do not think there would be a lot of industry objection to that.

The other thing that I would like to note is the significant role played by Geoscience Australia over recent years in opening up a couple of significant areas that will be drilled in the next six months when we bring a dynamically positioned drillship into the company country—notably, in the Great Australian Bight, the Inner Bonaparte Gulf, the Outer Browse Basin and the Beagle Basin. All of these areas were brought to the attention of the industry through very good work done, as I said, by Geoscience Australia.

What we also would like to see is greater income tax deduction for exploration and better PRRT terms for exploration and development to provide a fiscal regime in Australia which is more internationally competitive, given the track record for exploration and the perception everybody has of lower oil prospectivity. I say perception because large parts of the offshore are still lightly explored or unexplored and we simply do not know what could be there. Exploration to date has been largely concentrated in the main producing basins. In recent times, oil discoveries in those areas have been disappointing but as I said we do not really know what is out there.

The handout includes some of the results of a recent study by Wood Mackenzie, a company based in the UK and one of the world's leading oil and gas consultancies. They have looked at exploration around the world over the period 1991 to 2000 and concluded that offshore Australia ranks poorly in terms of discovery rates—it is 45 out of 57 in offshore, and only one in 16 wells has led to the commercial discovery. Average oil discovery size: we are 29 out of 47. There have been no major oil discoveries—single pool discoveries—greater than 300 million

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barrels since Bayu-Undan, which actually lies in the Timor Gap, in 1995. Woodside has made three discoveries which collectively add up to 310 but Duncan can tell you that getting those ones away as a PRRT payer is a serious issue for us. We are finding it quite difficult. Government take for oil projects: we are 16 out of 47. That is a better ranking but it is still significantly higher than for areas with similarly low rates of exploration, such as Italy or New Zealand. I would point this committee to the track record of New Zealand Crown Minerals, who in 1995 instituted far better terms for exploration, given that their petroleum exploration industry was more or less moribund. They have seen a spectacular increase in activity in the subsequent years.

When we look at the expected value to be derived from a typical exploration program, Australia ranks 30 out of 57 in that global review. Those comments are based on the past. The challenge for this committee is to come up with ways that will move Australia forward by incentivising exploration in areas that are still only lightly explored, including deep water, making it more attractive to develop small oil fields, and making it easier to develop major new offshore gas fields to supply both domestic and export markets. Other countries that have done this include the UK and the US and even Indonesia, quite some time ago. In Indonesia they have a set of frontier terms. In western Indonesia, where most of the oil and gas is found, where they get most of their production, the typical government split is 85:15—that is, 85 per cent to government and 15 per cent to the contractor. For frontier, which is anything beyond 200 metres or in parts of the country where they have no existing discoveries or production, it is 65:35 for oil and 60:40 for gas. In the Gulf of Mexico, where the greatest free market in the world exists, corporate tax is significantly lower but you also get things like royalty relief on, say, the first 80 million barrels produced or whatever. Recently, to encourage exploration back into the deep shelf—so we are talking now about very shallow areas that were produced many years ago—to get people to drill deeper to look for additional domestic gas, there are also now royalty relief options out there.

That takes me back to my earlier point. This inquiry needs to take a holistic approach to upstream activity—so that is basically to the entire upstream oil and gas business—and look at impediments not only to exploration but also to development. Our ultimate goal has to be to increase production and reduce the declining trend in oil self-sufficiency, as well as to extract additional wealth from our static gas resource. Exploration is only one means to that end. Thank you.

**CHAIR**—Thanks for that. In your submission, on page 16, what mechanisms are you referring to for reducing costs to proponents for producing formal approval documentation?

**Mr Oliver**—I will take that one. As some background, some of the requirements for formal documentation, particularly for development, requires extensive categorisation of the environmental values, but also the environment in general from flora and fauna lists to species lists. The government agencies are not resourced at the moment to collect that information. So generally in Australian areas there is little information available on the record and companies are required to gather that information. Sometimes that can take a long time because there is a requirement to do it in different seasons—terrestrially wet/dry, summer/winter. I would be looking in there for a greater involvement of government agencies in collecting that information and also careful scrutiny of whether that information is essential to making determinations on the acceptability of activities. I suspect that in some places that information is gathered to

increase the pool of information on the natural environment but not connected directly to decisions on the acceptability of those actions.

**CHAIR**—You mentioned Geoscience Australia. We have had other evidence in regard to that. Are there areas where you think we can improve in regard to, I guess, the availability of the information?

**Dr Kantsler**—Our business is a little bit like painting the Sydney Harbour Bridge: you start at one end, you go to the other and as soon as you get to the other end it is time to go back to the beginning and start all over again. We trawl through data quite regularly. In my company, my guess is that we go back and revisit pretty much everything we have done in quite some detail about every five years. As soon as a new piece of information comes along, Geoscience Australia needs to incorporate that in their thinking and try and come up with new concepts to unlock the potential of some of these areas that are not getting any exploration attention.

The issue for the companies is that to do a significant study can cost anything up to \$1 million. Not all of them have the capacity to fund that activity. If you do 10 studies in one year, and you do not actually bid for any acreage or, worse still, you bid and you are not successful, that is \$10 million that is gone. So it is imperative that the state plays a role in promoting opportunity.

**Mr HATTON**—When it comes to tax, I think most of the submission we get go to the question of reducing it and providing greater incentives by all sorts of novel ways—and I have noticed that in your submission you have given us a number of those, many of which I think have been tried before. With the imposition of the GST, what has been the impact on your business costs? Given that for a couple of decades we were told they would be dramatic for all businesses in Australia and you would be in a position where it would be a lot easier to do things, has it had any impact at all on the way your business runs in terms of costs and so on?

**Mr Gerhardy**—The GST has not had a large impact on Woodside's business due to the fact that our large investments and the equipment we are using in building LNG trains, platforms and so on were GST exempt anyway. There used to be some sales tax incurred on office stationery and office stuff, but that is relatively minor when you are looking at the billions of dollars we spend on, for example, the North West Shelf expansion. So the impact has not been large.

**Dr Kantsler**—In answer to the first part of your question—that is, that we are always asking someone to give—what we are talking about here is trying to create a bigger taxation pie. I do not think anyone in the industry is asking for the existing rules for existing production to be changed. However, we are asking for future production to be incentivised. The tax concession is a tax concession from future revenue, not from current revenue. But, of course, the choice for government is: either you try to get that future revenue or you get nothing.

**Mr HATTON**—So the amount of prospectivity that we have and the other information you have given us here in terms of the comparatives is the basis for your argument that we need to look at the steps that you have given us?

**Dr Kantsler**—Correct.



**Mr HATTON**—Can you tell me about the brownfields that you were talking about and the fact that there is a lower rate of return but there is less risk?

**Dr Kantsler**—If you look at Iran, which has the third or fourth largest reserves of oil and gas in the world, you basically do not do exploration there. They give you an existing field which you refurbish or an undeveloped field which you develop. Because there is no exploration risk, there is really only a development risk, they cap your rate of return, which is quite right. When we do exploration, because we have risked an awful lot of money, we expect a far greater rate of return. The successful projects have to pay for all of the failed projects; otherwise we do not make any money. That scenario in Iran is different—you go there, more or less, as a development contractor.

**Mr HATTON**—How much do you factor in because of the security situation in those countries? I would imagine that post the end of the Cold War there would be a lot of prospectivity and a lot of development in not only Iran and Iraq but also the former Soviet states. How many companies have gone in there heavily given the relative instability of those areas?

**Dr Kantsler**—In the global oil and gas industry, all of the majors and super majors are represented in pretty much every single country that has oil and gas. You are quite correct: Russia—or the former Soviet Union—are probably the realm right now of the super majors because they can actually take that fiscal and political instability risk. A company like Woodside cannot afford to do that and we do not have the resources to manage government and the oil companies in those countries. It is my expectation that, over time, that will improve, simply because people are motivated by revenue to begin to behave in a more transparent way. But the oil companies are in every country, irrespective of political and country risk.

**Mr HATTON**—That is because you get something out of it if you put enough into it in that regard. Usually, there is a two-way hit, with the country getting something out of it as well. How do you see the outcome of your recent contract with Guandong province—it is a major contract; 25 years, \$25 billion plus—impacting on your future development? You have got up to a fifth train but, regarding the elements that were included in that contract, do you expect to be able to get other regions of China to sign up in the future?

**Dr Kantsler**—It does not impact on exploration to any great extent, in that most of the resources that are going to be devoted to that contract were discovered more than 30 years ago. In some ways, the shareholders have been waiting an awfully long time for their return on that initial investment. There are opportunities to explore for tie-back gas in and around the existing North West Shelf facilities. If they are close enough, those things will make money.

I imagine at the following hearing you will hear about Gorgon and how those proponents are trying to get their project away again. They are resources that were discovered 25 to 30 years ago as well. It is very hard to make any exploration investment decision, which can often be from tens of millions up to \$100 million, when you do not expect to get a return for 20 or 25 years in that very large but also very competitive global LNG market. You look at the time value of money and it is not a good deal.

**Mr HATTON**—Do you expect that, whatever the percentage was, the depressed nature of the price that you get as a result of the deal with Guandong might have an impact on your future

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business? You have a series of other contracts that are up for renegotiation; does the depressed nature of that price impact on your total profitability and, therefore, what you can do?

**Dr Kantsler**—Again, I do not see the connection to exploration, but in answer to your question—

**Mr HATTON**—The connection I make is that total company profitability actually influences what you do in the exploratory area.

**Dr Kantsler**—It does not matter who got the contract; the price would be depressed anyway simply because there are too many projects competing for the one contract. Irrespective of whether it was us who took the hit on price or whether it was any other successful candidate in another country, you would still have a hit on price with all of the flowthrough effects that you describe.

**Mr HATTON**—Does this decreased level of income mean that, going forward, the risks are that much greater for everyone in the game, or that what you are looking at is therefore more marginal?

**Dr Kantsler**—With existing projects, when we are threatened by price, typically it takes a few years to kick in. But, by and large, we do come up with new technologies or new ways of doing business which allow us to recapture the margin. It does not happen immediately though; it takes five, six or seven years.

**Mr TICEHURST**—I would like to bring the discussion back to Australia; I think that is where our interests are more likely to be. Can you expand on your recommendations about thoroughly assessing the native title and heritage issues before the onshore exploration is offered? What suggestions would you make to improve these processes?

**Mr Gerhardy**—I think the suggestion there is simply to provide more information and greater clarity for people at the bidding stage as to the likely native title situation for that area—that is, mainly for onshore areas. That is the purpose, whereas at the moment that clarity is not there. So people bid for acreage, they get awarded acreage and then they have to go through the native title process and start from scratch—and that can be a very uncertain thing for them.

**Mr TICEHURST**—Have you found difficulties with the land councils, say, in negotiation with the traditional owners?

**Mr Gerhardy**—Woodside's main onshore exposure is with the North West Shelf project on the Burrup Peninsula. We have worked hard over the last 10 years or so in developing a relationship with the Aboriginal claimant groups in that area and have come to an agreement even prior to native title actually going through its formal processes. So we have come to a situation where we have established good relationships at a working level and things are working positively even outside the native title processes on the Burrup. Similarly, when at one stage we were looking at an onshore development in Darwin, we were also talking to the land councils and working with them to identify issues and key areas prior to actual native title considerations going ahead.

**Mr HAASE**—In your submission you raise the issue that today, with the advance of technology et cetera, you have a greater ability to work without impact in environmentally sensitive areas. Through previous discussions I am aware that there is a prospective area north-east of the Great Barrier Reef and that, from the way your submission reads, you could be skewing to work even closer to the reef. Would you like to elaborate on that?

**Dr Kantsler**—I will start off by saying that, until there is some political and popular will to contemplate such activity, Woodside is absolutely not interested in going anywhere near the Barrier Reef. However, the area that you are referring to is quite some distance from the reef proper—I think at its closest point it is 50 kilometres or 60 kilometres, but the bulk of it lies significantly further offshore. There are some submerged shoals with live coral on them but we also have submerged shoals with live coral on them throughout the Timor Sea, in fact, in very close proximity to the Corallina-Laminaria, the Buffalo, the Bayu-Undan and the Sunrise developments. None of those are threatened by our activities. Most of the debate that you see in the newspapers is actually quite emotional and partly irrational. As I said, with that irrational debate out there, there is no mileage in Woodside even thinking about doing business in that part of the world. It has to be the will of the government and the will of the people to see these things go ahead in a very well managed way. It is not up to Woodside to run that debate in the public arena in Australia.

**Mr HAASE**—In your brief opening statement, you mentioned the Beagle Basin. Where is the Beagle Basin?

**Dr Kantsler**—If you think about the existing North West Shelf assets, it is to the north and further offshore. We are talking now about water depths out beyond 1,000 metres. We will be bringing in quite a big drill ship in a few months time, and we will be drilling that. However, we are incentivised by the fact that there is potentially a huge reward out there, despite the very large risk—and I am talking about 10 per cent or less chance of success; so that means 90 per cent chance of failure. If the wells that BHP is drilling in the Outer Browse, the one that the North West Shelf venture is drilling in the Beagle and the one that Woodside together with Anadarko and Encana is going to drill in the Great Australian Bight fail, which would be the expectation at this stage, then effectively we are going to condemn that acreage for quite some time. One of the things we can do in business is trade volume for value but eventually there is a minimum economic threshold, and under the current terms no-one is going to be incentivised to go out there and look for smaller things.

**Mr TOLLNER**—You mentioned in your submission that you have a greater international focus these days than you had some time ago. Some of that seems to be reflected in the alliance that you have with Shell in the Greater Sunrise field and trying to get the floating LNG plant off the ground and thereby opening up more international markets for yourselves. I think having that focus on shareholder returns and the like is probably the right thing to be doing. Where does the Australian national interest fit in to your focus? Is there a place for Australia's national interest in Woodside's considerations?

**Dr Kantsler**—There is. The exploration spend is at the highest level that it has ever been and whilst we are spending more internationally we are keeping Australian expenditure at a relatively high level. But I cannot do that for too much longer without exploration success, and exploration success for me is to find things which I can monetise within five years. There is no point in finding things which take 20 to 25 years to come onto the market. You cannot reward

your shareholders if you are not making any money. I am just signing a death warrant for the company if I do not find new things to develop.

The second point is that, when we think about value to Australia, the export market is far more valuable than the domestic gas market. Prices in the US are currently around \$US3. The best price you can get in Australia is about \$A2.70—\$US1.35—which is significantly lower. When you export to a market like the US, you are making a higher margin, therefore your profitability is higher, therefore you generate more revenue for both the company and the state. I am sure that the state thinks about its share of the cake as well.

**Mr TOLLNER**—My background is superannuation. One of the things that I have always believed is that we can all invest our superannuation funds internationally and make millions and millions of dollars for our retirement income, but what is so good about that if there are no schools for our kids, no hospitals and that sort of stuff? I ask the same question: when you say that there are greater profits internationally, what is the benefit of that for Australia if we cannot even meet our own domestic energy needs?

**Dr Kantsler**—There is greater taxation revenue for Australia in the same instance.

**Mr TOLLNER**—Are you suggesting that we should use that taxation revenue to maintain our own energy needs by importing energy?

**Dr Kantsler**—The question of PNG gas coming to Australia, which I think is what you are referring to, is a straight commercial deal. If they can provide gas to that market at an economic price and compete with existing suppliers, so be it. Having Sunrise gas onshore in Darwin that competes with gas from PNG is a straight commercial equation. But that project has been touted now for seven or eight years and still does not have legs. In the meantime, supply in south eastern Australia is adequate but at risk. I would like to point out that Woodside South East Australian Gas discoveries have actually broken the nexus of supply in south eastern Australia.

**Mr TOLLNER**—Otway Basin and—

**Dr Kantsler**—The fact that our gas is in the market and has liberated contracts.

**Mr TOLLNER**—Are you still committed as a company to FLNG?

**Dr Kantsler**—We are committed to whatever makes the greatest amount of sense for both ourselves and the country.

**Mr TOLLNER**—That would certainly open up fields like Beagle Basin.

**Dr Kantsler**—If the FLNG technology works—and everybody believes that it will—it will have the potential to liberate a lot of Australia's static gas reserves. We have a lot of gas in remote places that cannot be brought on stream, simply because of the pipeline and development costs. The pipeline cost to an onshore plant is excessive because of the distances. However, floating LNG creates a whole new ballgame. When scaled down to some sensible price, which will happen as technology improves, it will also enable you to go out and chase boutique markets.

**Mr TOLLNER**—I understand that when the North West Shelf was kicked off, there was somewhere around five TCF of gas estimated to be there. These days, those reserves have been proven to be somewhere in excess of 50. Would further exploration in the Timor Sea mean that you would find more reserves? I know that with Sunrise it was proved to be less. It went from nine to 8.3 or something like that.

**Dr Kantsler**—When I came back to Australia and took over the exploration or the delineation of that project, it was 3TCF in 1995. We drilled a well at the end of that year and took it up to 5.7 and, with subsequent wells in the following years, we took it up to its current position. Having done quite an exhaustive review—I am now talking about Woodside, but you are free to consult with Geoscience Australia; I am sure that you will—we do not see a lot of potential for other discoveries of that size. There are several smaller ones around in the Timor Gap area. They are burdened by high carbon dioxide content, which adds significant development costs and environmental issues. The nearby Evans Shoal field is large, but it is a very difficult reservoir and, quite frankly, I have personal reservations about whether that can be developed economically in the current market and under the current tax regime.

**Mr CAMERON THOMPSON**—I want to get some comments about onshore exploration. There is some comment that there is not much available onshore. Is that absolutely certain, without doubt, or is it just that we have got too many impediments to exploring onshore—even more than offshore?

**Dr Kantsler**—It is a combination of both technical risk and impediments. Most of the oil and gas that is found onshore, as in offshore, is found in the proven basins and not too many people are finding things beyond that. Just to digress for a moment, on the subject of native title, have you been to Queensland? You probably already know the numbers.

**Mr CAMERON THOMPSON**—The committee will be going there.

**Dr Kantsler**—I think people there will tell you that outside the areas that were licensed at the time, there has been virtually zero onshore exploration, simply because of the uncertainty around native title and the new petroleum legislation act in Queensland. So for a very long period of time they have had no what I would call ‘frontierish’ type exploration or exploration beyond the current bounds of activity.

**Mr TOLLNER**—Would the same apply in the Northern Territory?

**Dr Kantsler**—Very much so, although the area that is prospective onshore in the Northern Territory is really quite small—the area just down to the south of Alice Springs and then a little neck just up near the onshore part of the Boneparte Gulf basin.

**Mr CAMERON THOMPSON**—So you are saying that the risk issues are to do with those areas of legislation and the unknown quantities?

**Dr Kantsler**—I think here in Western Australia there are some proponents of a project called Whicher Range down in the south, to the south of Bunbury in the forest area there. I guess the threat that the folks trying to get that project off the ground see is that, if they are successful in getting this tight gas project to work, oftentimes in our business, you work on a fairly skinny margin in the first bit of the business. We tend not to go into loss leader business, but we will

shave the margin to get the first piece away. Once you get the infrastructure in place, other bits are profitable. However, there is talk of making all of that area a state forest reserve, and the proponents of that particular project would be concerned that they could be locked out from the upside they could get in future which would make their development more attractive. The population is quite concerned about environmental matters, and so are we. We do try to go about our business in the most environmentally efficient way that we can, in the most benign way that we can. But it is difficult, as everybody who has an interest in these things—

**Mr Gerhardy**—And that can work against us too, in the case of Enfield where it is an extra \$50 million or so for reinjecting gas rather than flaring it in a remote oilfield development that we are trying to get up.

**Dr Kantsler**—And we already do that with our Legendre project—we reinject rather than flare. That added a significant financial impost, but they are our company's values and I am sure that when ChevronTexaco get up to speak, you will hear that their company has the same values.

**CHAIR**—If there are no further questions, I thank the witnesses for their time here today. Is it the wish of the committee that the submission from Woodside Energy be incorporated in the transcript of evidence? There being no objection, it is so ordered.

*The document read as follows –*



[10.11 a.m.]

**BECKETT, Mr Colin David, General Manager, Venture Gas, ChevronTexaco Australia Pty Ltd**

**PEARSON, Mr James, External Affairs Manager, ChevronTexaco Australia Pty Ltd**

**CHAIR**—Welcome. Do you have any comments to make on the capacity in which you appear?

**Mr Beckett**—I am responsible for managing exploration activity within Australasia for ChevronTexaco.

**Mr Pearson**—I am responsible for government and public relations in ChevronTexaco.

**CHAIR**—I invite you to make a short opening statement before we proceed to ask questions.

**Mr Beckett**—Firstly, I want to give a little background to ChevronTexaco. We are a US company headquartered in San Francisco. We are one of the so-called super majors with daily production of about 2.7 million barrels and we are active in 180 countries. We have been in Australia for 50 years on a continuous basis, dating back to the Rough Range discovery. We are based in Perth. From Perth, we are the operators for oil production on Barrow and Thevenard islands in Western Australia and for the Gorgon gas field joint venture—which one day, we assert, will match the North West Shelf LNG project, in which we are also a participant, as a gas development of national and international significance.

Our exploration expenditure in Australia has averaged about \$40 million a year over the last five or so years. This has been mainly targeted at gas-prone acreage. Recent discoveries of world scale gas fields, plus our involvement in the North West Shelf discoveries in the seventies and Gorgon in the eighties, have led to ChevronTexaco becoming the largest single holder of gas reserves in Australia. But as we look forward to commercialising these gas reserves and to undertaking further exploration, we are conscious the fiscal regime for gas is not competitive with other gas exporting countries. This might impact on our ability to bid successfully for LNG contracts of the nature of the recent Guangdong LNG contract and to capture internationally mobile domestic gas companies—for example, methanol producers. It is in this context that I wish to make our remarks on impediments to resources in exploration. With respect to other comments in our submission covering precompetitive research and intergovernment and interagency cooperation post acreage award, I would be pleased to address those during your questions.

A critical part of the decision making process in exploration is the evaluation of whether a successful outcome will yield a commercial development. The main influence the government can have on this is through the tax regime. Most acreage of interest for ChevronTexaco is in the petroleum resource rent tax, PRRT, areas in deep water and are more likely to yield gas than oil. While we recognise the very positive moves in lowering the corporate tax rate and the move to limit depreciation lives for equipment used in oil and gas, there are aspects of the PRRT system which do disadvantage large scale gas projects in deepwater developments.



Let me start with the five-year rule for carry-forward exploration expenditure. The effect of this rule means that expenditure on exploration activity which takes place more than five years before a production licence is granted is only compounded at the GDP inflator—about three per cent today—in calculating how this expenditure is offset against PRRT payment. So for long lead projects with fairly marginal economics, by the time this expenditure is available for offset against PRRT, the value in real terms has been seriously eroded.

Thus there is little recognition of this exploration expenditure in determining the profitability of a development for PRRT payments. Let me give you the example of the Gorgon field. The Gorgon-1 discovery well was drilled in 1981, and a number of appraisal wells were drilled during the eighties and nineties in order to demonstrate that we have sufficient reserves to market the gas. A production licence has not yet been granted since, due in the main to market conditions, commercialisation is unlikely to occur before 2007. Therefore, there will be little recognition of the significant expenditure on exploration in determining Gorgon PRRT payments.

We therefore recommend that undeducted exploration expenditure from outside the five-year period be compounded at a rate to maintain the value in real terms—for example, by a CPI adjustment mechanism—up to the fifth year before the grant of the production licence, so that we can just move it forward and keep it whole in real terms. At that point, it would be treated the same as exploration expenditure incurred in the five years prior to a production licence application. That form of exploration expenditure is compounded at a rate of 15 per cent plus the long-term bond rate for five years prior to the production licence application plus the time from the granting of the production licence to the time when it is available for deduction. This can be quite some time, because exploration spending can only be deducted after the deduction of operating costs and project related expenditure. This could be several years after the production licence has been granted and production has commenced.

My second point on PRRT is the uplift rate applied to general project expenditure. This is a significant area in which large gas projects are disadvantaged by the tax regime. The uplift rate on general project expenditure was originally designed to allow project proponents to earn a return on capital commensurate with the risks in developing and producing oilfields. This was set at 15 per cent plus the long-term bond rate, but was reduced in 1991 to five per cent plus the long-term bond rate. This reduction had a marginal effect on shallow oil projects which could be brought to production quickly but has disadvantaged gas projects, since these tend to have more marginal economics and longer construction times, with subsequent long periods before capital recovery.

We therefore recommend for gas projects that the carry-forward rate for undeducted general project related expenditure be increased to at least 10 per cent plus the long-term bond rate to allow for adequate consideration of construction risks, reservoir performance risks, gas commercial and other operational risks. To conclude, ChevronTexaco recommends changes to the PRRT uplifts for exploration beyond five years before the granting of a production licence and to the uplift rate applicable to general project expenses, as ways to encourage further exploration in existing gas-prone acreage and interest in new gazettals which are likely to be gas prone. These recommendations are consistent with those recently advocated by the Australian Petroleum Production and Exploration Association—APPEA—with the support of its members.

**CHAIR**—Petroleum exploration is a high-risk and expensive business. How do you rate Australia's prospectivity for petroleum liquids in our gas-prone provinces?

**Mr Beckett**—I would split the two things—liquids and gas. For liquids, Australia's prospectivity is not world class and therefore does not rank highly on ChevronTexaco's list of preferred places to explore for oil. For gas, it is world class and is therefore a place where we choose to explore for gas and build on the investment we have already made in the North West Shelf.

**Mr TICEHURST**—APPEA suggests a single agency to better coordinate the approvals process. As you support APPEA in this, do you have a particular new or existing agency in mind?

**Mr Beckett**—We do not have a particular view on how this should be done. We support the concept of centralising and simplifying the approvals process, but we would not wish to advocate to the government whether they should pick an existing agency or create a new one.

**Mr TICEHURST**—You also suggest that tax regimes in Australia are not really conducive to the development of your business. In relation to the issues you just raised, how does this compare with, say, oil exploration in the Gulf of Mexico?

**Mr Beckett**—I have really made comments on gas exploration rather than oil exploration, to be quite candid. But to address your comment, I think the terms in the Gulf of Mexico vary depending on the prospectivity and on whether the government is trying to incentivise companies to go back into new acreage. So it varies depending on what the government requires in terms of oil self-sufficiency. At the moment the terms are quite attractive for people to go back in and explore.

**Mr CAMERON THOMPSON**—I have a question on the impact of different levels of government on your business. Are we suffering much because of excessive duplication and a requirement to deal with different levels of government? That is the core of the question.

**Mr Beckett**—I do not see that as the real driving issue, from our perspective, in trying to explore for and commercialise new reserves. We have evidence of good cooperation between the various government agencies, all of whom we have good relations with, so this is not a core issue for us.

**Mr CAMERON THOMPSON**—You are interested though in our relative competitiveness. Do you think that is an examination that should be undertaken at the federal level?

**Mr Beckett**—There have been a number of submissions made through APPEA on this issue. Certainly, we would recommend that we do study at a federal level the competitiveness of our industry versus overseas and, perhaps more importantly, study how other countries respond to changes in exploration trends, to ensure that we are able to continue to incentivise people to explore here rather than expect a regime to last for a long period of time because it worked in the case of PRRT in 1991, with the change to the general project related expenditure. It has been 11 years since then; an awful lot has happened. We need to be responsive. That is really the issue that I would recommend studying. It is not what is our absolute position, but how other governments deal with changes in their industry.

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**Mr CAMERON THOMPSON**—Have we failed to be responsive? In what areas? Can you give us an example.

**Mr Beckett**—The area I have referred to here is where we have been making comments through the LNG action agenda for some time that PRRT needs to be reviewed to create more incentive for exploration and for the development of gas and deepwater discoveries.

**Mr CAMERON THOMPSON**—What changed in the industry which meant that it failed to—

**Mr Beckett**—I think the changes are, firstly, the external environment. The LNG industry, as we heard reference to earlier, is more competitive. If we start off competing in a difficult market with a cost structure that is at a disadvantage to those in Qatar or Indonesia, then we are less likely to be successful. Things have changed in the last 11 years in the way the LNG market works. We are moving off an oil linked price to a negotiated outcome. At the end of the day all parties need to be adequately remunerated to make it worth going forward, so we can only bid to a certain point before we are not going to be in the game anymore. That is the way the external market has changed.

Also, our success rate for oil has changed over that time, so we need to reflect on the fact that volumes of oil discovered are getting smaller and numbers of successes per well drilled are going down. These are real facts that have changed, and I think government needs to reflect those in the taxation regime. When you drill a well, if it is successful, are you likely to make money from it? The answer more and more is no, you are not likely to make money from it. One of the ways that can be alleviated is in fact by changing the way that future production is going to be taxed.

**Mr TOLLNER**—Issues of sovereignty, the stability of governments and so on keep coming up. I am led to believe that the PNG government is probably one of the least stable governments in the world. Given that, I am wondering why it is that PNG gas seems to rate highly with Chevron as a source of Australian domestic gas and what it is that seems to be giving them the edge over Australian gas reserves.

**Mr Beckett**—I will just comment that the PNG government has the Westminster system and that system has remained unchanged since independence. It is a democratically elected government. We, as a host in their country, are also obliged to look after their interests. We have been there through Gulf and then Chevron, which is now ChevronTexaco, for about 25 years and are the leading operator in Papua New Guinea. The Kutubu oil field has been on production for just over 10 years as a major source of revenue for the PNG government and its people. It also contains a reasonable amount of gas and we, as the operator, are obliged to try to commercialise that on behalf of the PNG government. One way of commercialising it is by export. It happens to be that Australia is the closest point of export. We do not see any conflict between having our operations here in Australia—as a leading explorer, as a leading developer and producer of hydrocarbons—and proposing to export gas from PNG to Australia.

**Mr TOLLNER**—Where is the cost saving in exporting gas to Australia as opposed to developing our own reserves?

**Mr Beckett**—I do not know the answer to that, because ChevronTexaco has no interest in reserves in eastern Australia.

**Mr TOLLNER**—So you are saying that you could deliver it cheaper but you do not understand why.

**Mr Beckett**—Under the ACCC laws I am not allowed to be privy to the domestic gas pricing of other projects in Australia which might be competing with PNG gas.

**Mr TOLLNER**—How would we find out that information?

**Mr Beckett**—I am afraid I cannot answer that question.

**Mr HATTON**—I will start off with a wicked observation. The Prime Minister is responsible for a lot of things, and in 1987 he discovered ‘incentivation’. That went down the tubes politically but it seems to have caught on in the industry. We have now had two players talking about ‘incentivising’. I note that I listened to the Treasurer this morning and it looks like we are not going to have a long-term bond rate, so we might need a new formula to work on in terms of that.

We have world-class gas and we generally have world-class research as well. I want to take up the issue of Geoscience Australia. Woodside put forward a proposal that maybe a central digital library should be provided through either Geoscience Australia or somebody else. How do you use the information that Geoscience Australia provides, and would it be beneficial, as Woodside suggested, to have a readily available central digital library? Would that be an incentive for you to go and do more work in mineral exploration?

**Mr Beckett**—I can quote a case in point. Yesterday I had two of my team sitting with me and saying they wished to look at a potential new gazettal and they were planning to spend a week in Canberra with Geoscience Australia to go through what information would be relevant to allow us to assess whether we wanted to put a bigger team together to look at that acreage. The first stop in determining whether we want to be looking at new acreage is working with Geoscience Australia, so their relevance is immediate to us. I have not personally investigated the specifics of what Woodside is suggesting. It sounds like an eminently sensible thing to do because there is actually no doubt that data needs to be continually updated and that the relevance and integrity of data is vital. One of the problems we have in house is continually making sure that the data set that people are working with is the most current data set and it is not the one that was looked at last year or five years ago. So, for Geoscience Australia to be responsible for that and to be able to say, hand on heart, ‘this has integrity’ is very important to us and it is key to decision making on new acreage.

**Mr HATTON**—It is a smart way, I suppose, of providing information, of cutting through a lot of the things that could stop you having a look in the first place. Given that we have the capacity to do it, provision of that would give us a competitive advantage against other countries that are not doing the same sort of thing.

**Mr Beckett**—I fully agree with that.

**Mr HATTON**—The Gorgon field is interesting. If you first drilled in 1981 and you are looking to come to production in 2007, that is a pretty long gestation time. Is that because you have other interests in the North West Shelf and they have been developed further? Is that part of the reason that we are looking at such a long lead time?

**Mr Beckett**—It is worth going back to the North West Shelf and looking at the fact that it was, I think, 19 years from first discovery to the first LNG cargo. This is going to be longer than that, but these big gas projects are difficult to get away, for any number of reasons. Gorgon was thought to be perhaps undersized for the task until reappraisal in the period 1997-98 and has gone from being perhaps undersized to being now the biggest single discovered gas field in Australia. New information certainly changed the capability to develop Gorgon on a stand-alone basis. The other issue is that the market has not been easy. It took some time for the North West Shelf to sell its fourth train of gas into Japan—some six years from starting negotiations to completing them. That was a project in which we were involved, on the inside track, with what is most probably the eighth best customer in the world and it still took six years to pull off a deal. It is just the nature of the business rather than any more complicated factor than that.

**Mr HATTON**—Something that has come up a number of times in different places is the question of what domestic demand there is. I can only gauge that we will never have the domestic demand that other places might have. We are not the United States, we are not Europe; we cannot have that kind of domestic demand. Therefore, most of our focus has to be on what we can do in export terms.

**Mr Beckett**—I think there is a healthy balance. Indigenous requirements for gas are obviously going to be limited by our population. By world standards, we have reasonably high gas penetration in the west; it is not so good over in the east. We are trying to induce those customers that have a choice to come here and do things like produce methanol, when they could do it in Chile, for example. The only way we are going to do that is by any number of incentives—I apologise for using that word again—and one of those is going to have to be a world competitive gas price. That is all that we, as a gas producer, can offer apart from putting effort into marketing and attracting them here in the first place. We do that in conjunction with various government development departments with whom we have good relationships. Certainly one of the things that we lack a little bit—over in the west, anyway—is large-scale competition. One of the advantages we see of moving Gorgon forward is that there will be another large domestic gas supplier available. That really is an attraction if you are coming from overseas and you want to have a choice—not only of country, but of supplier—to be able to negotiate the best deal you can get. That is the best I can suggest in response to your question.

**Mr HATTON**—My last question—and this is very current—is about security, and it could go to almost anybody involved in this business. The context within which things are done has dramatically changed over the last couple of years. A lot of the elements have been there before, but the security question is now fairly vital. It seemed obvious to me, standing on the Burrup last year having a look at what was there in front of me, that it is a massive problem simply in terms of the investment that Australia has got and what could be compromised if that were to go up. If we come down further and look at a range of sites in Western Australia—Kwinana and so on—we see that we have a lot of money invested in those facilities. Recently, the Western Australian Premier suggested that the Commonwealth needed to look at how to protect those assets. Does your company have a view in terms of that changed situation we have and whether or not there needs to be a greater view to domestically securing those assets?

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**Mr Pearson**—We would welcome any moves taken by the relevant state and federal authorities to maintain accurate assessments of the level of risk that our energy infrastructure is exposed to and to keep in place appropriate arrangements to deal with any threat, if there is assessed to be a threat to those facilities.

**Mr HATTON**—Given the depth of your investment in Australia, do you have an internal company policy on critical infrastructure and, for your own company resources, how you may best protect what you have got?

**Mr Beckett**—That is a question that I have not per se addressed, to be quite candid. Obviously, we do security reviews of all of our operations in places like PNG, Kazakhstan et cetera. We obviously operate in some quite interesting places. As part of those security reviews we take into account the protection that is afforded by the host government. When it comes to Australia, I think that hitherto we have been perfectly satisfied with the position taken by both state and federal governments in providing protection to our investments. So I think that the question might be important in a more prospective rather than a historical sense.

**Mr HATTON**—I would actually hazard that prospectively we all need to look very closely at just what our critical infrastructure is and take steps, both at a company level and at a state and federal level, to protect that. The nature of the dangers has changed, as is quite apparent now.

**CHAIR**—I think what Mr Hatton is trying to say is that no-one would have even asked that question 12 months ago.

**Mr Beckett**—I think that is a very good point. It may be worth adding that, through APPEA, there is dialogue going on with the relevant government authorities on behalf of the industry. We think that is most probably the best forum to take this issue forward in an expeditious way, rather than having various government agencies dealing with a multitude of different companies. APPEA is very effective at working with us all and facilitating our input.

**Mr HATTON**—Just to finish off, the particular reason for alarm is the fact that you have a much greater problem in trying to secure an industry that actually has something that innately—for example, gas or oil, but particularly gas—means that if you put flame to it you can blow the whole thing up. Also, there is a potentially greater incentive on the part of the terrorists to say, ‘We can knock this over and do it fairly easily,’ because the essential thing is there to start off with. That is where I think we need to think very creatively and work pretty hard on this, as has already been indicated by Geoff Gallop. We are in a new ball game here and we have to redirect our resources.

**Mr Pearson**—To come in on that point, you will find our industry to be a good partner to work with in that regard, because safety is always the most important priority given the very volatile nature of commodities with which we operate. Security issues are one of the central tenets of our approach to the management of safety for our personnel and facilities around the globe.

**Mr CAMERON THOMPSON**—We heard earlier from the Woodside people that one of the difficulties is that, if it is a remote location for gas—and oil, I suppose, also, but let us just talk about gas—then people need to be incentivised to go there and that is a difficulty and a hurdle. In the context of that, I want to come back to my earlier remarks about different levels of

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government and their attitudes. It was put to me years ago that there is a great big gas bottle in the north and west of Australia and the markets are all in the south and east and the logical thing would be to have a pipeline that connects those two, or something that does that—some sort of major connection; yet we see state governments building pipelines and instructing, coercing, directing, encouraging or incentivising companies to make their pipelines in all kinds of crazy directions. We have pipelines that go from the Amadeus Basin up to Darwin. When the Darwin people oversized their pipe to go to McArthur River, the Queensland government then supplied Mount Isa out of Roma. So we have pipelines going up here and over there and there is no coordinated activity to make sure that remote regions are more appropriately served by pipeline connections. They are being manipulated according to state priorities rather than a national priority. Is this a concern?

**Mr Beckett**—I do not really think I would like to involve myself in a state versus national debate, to be honest.

**CHAIR**—Very wise!

**Mr Beckett**—From looking at the map of Australia, I would say that Moomba is Australia's Henry Hub equivalent. Henry Hub is the point at which all pricing of gas in the United States is based—it is the central point from which pipelines connect and distribute gas. I think that Moomba is fast becoming that hub for Australia and would therefore be a natural point if we were bringing gas from Western Australia to the east. You would tend to go for Moomba. If I can make any useful comment in response to your question—which I am not really qualified to answer, to be honest—it would be that taking some sort of look at how Moomba could be further extended as a hub for gas distribution within all of Australia would be very useful.

**Mr CAMERON THOMPSON**—I would like to try and push you a little bit on this. I am sorry for doing that. Would it be better if we did have a coordinated network, rather than the ad hoc network we currently have—leaving the state and federal issues out of it?

**CHAIR**—I hope you are not talking about a cartel.

**Mr CAMERON THOMPSON**—No, I am talking about the coordination of it, which is a role for government. That is what our role is.

**Mr Beckett**—Going back to the reforms of the early nineties, it seems to me that the government, over time, have gradually tried to break down the state dominance of the gas industries. So that the geographical boundaries become irrelevant to decision making, I am advocating that policy setting should be such that intrastate and interstate pipelines are as easy to build as each other. I think that is all we really need.

**Mr CAMERON THOMPSON**—Would you say that at the moment it is more difficult to build an interstate pipeline than to build an intrastate pipeline?

**Mr Beckett**—To be honest with you, I really do not know.

**Mr CAMERON THOMPSON**—How many interstate pipelines do we have?

**Mr Beckett**—There are quite a number down in the south-east corner. There may be players who are better able to answer that for you—players who actually have interests in Bass Strait, for example. We have no interest in gas distribution or in gas supply in Victoria, New South Wales, South Australia or the Northern Territory. We have a slight interest in Queensland through another project. I really am not qualified to answer. This does not seem to us to be a hindrance to our exploration efforts.

**CHAIR**—We are out of time. Thank you for appearing before the committee today.

**Proceedings suspended from 10.43 a.m. to 10.57 a.m.**



[10.57 p.m.]

**KING, Mr Geoff, Vice President, Exploration Australia-Asia, BHP Billiton Petroleum Pty Ltd**

**SUTHERLAND, Mr Neil, Commercial Manager, Exploration Australia-Asia, BHP Billiton Petroleum Pty Ltd**

**VINE, Mr John, Global Manager, Tax Affairs, BHP Billiton Petroleum Pty Ltd**

**CHAIR**—I welcome representatives from BHP Billiton Petroleum. I invite you to make a short opening statement before we proceed to questions.

**Mr King**—We have provided you with a brief handout which goes with the presentation we are going to give. Neil Sutherland and John Vine have had significant input into the submission. Hopefully, between the three of us, we can answer your questions.

Firstly, in the submission we have made on behalf of BHP Billiton Petroleum we concentrate on the areas which we see as significant and relevant to our petroleum operations in Australia. It does not include native title or onshore type issues that we are not impacted by, because all of our operations in Australia are offshore. Also, we are an Australian based company that is operating globally, so we provide a global perspective. In the submission we focus primarily on oil or liquids exploration rather than on gas. Gas is important to BHP Billiton in terms its commercialisation, but our submission is more focused on oil and liquids production, which is what we have put the emphasis on.

*Slides were then shown –*

**Mr King**—I now move to the first slide. Looking at the investment criteria that is considered by companies such as ours, it is clear that countries like Australia compete for a global pool of exploration funds. The main factors that we consider in deciding whether to invest in a country are listed on that sheet. I will not dwell on them, but we have listed five main factors that we would consider. The first is prospectivity. Estimates that are available in the public domain indicate that Australia's remaining undiscovered reserves are probably less than one per cent of the world's undiscovered resources overall. That gives a perspective of where Australia sits in terms of what likely reserves there are in the rest of the world.

The second consideration is fiscal terms. Again drawing on information that is in the public domain, in global terms, Australia's fiscal terms are seen as sort of middle of the pack. The third consideration obviously is political stability and sovereign risk issues; clearly, Australia is very favourable in that regard. Another consideration of ours is strategic fit. With the base company being well established here in Australia and having a successful track record, it is a very good strategic fit for BHP Billiton. That is not necessarily the case for all companies; it is different for each individual company.

The final consideration is materiality—that is, the size of the prize; how significant the sizes of the projects are. Certainly in more recent years we have observed that discoveries in

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Australia have been on the small side. Also a lot of gas discoveries have been made that cannot be commercialised at this point in time. For us, looking at Australia, there is potential high value in some of these smaller discoveries but, in terms of volume, they are relatively small. In summary, from a global player's perspective, Australia is seen as being a moderately attractive place; it is certainly not up the top. In terms of attracting investment, it sits in the middle of the pack.

This is our second slide. In preparing our submission, we wanted to emphasise the need for a balanced approach. Having looked at some of the submissions and particularly at proposals from APIA, it is our understanding that probably there has been a significant focus on the fiscal side of things. We wanted to provide in our submission a little more emphasis on aspects other than that. This diagram is an attempt to explain those two aspects. It is really schematic; we are not putting figures on it. Obviously there are the two dimensions in investment that you would be aware of, the value dimension and the risk dimension. On the vertical axis is the value dimension. In the context of the exploration that we are talking about, the fiscal terms obviously address the value element. We certainly support the proposals that have been put forward by APIA and also those that have been addressed in our submission. The other element is risk, or the chance of actually succeeding when we are exploring for oil. We have put forward some measures in the submission that address that sort of risk aspect. You may want to address that when you are questioning us or looking at our submission in more detail. That is under the category of what we would call precompetitive work; that is, work that is done before a major investment is made.

I will summarise how we have structured our submission. Following on from that previous diagram, we have addressed two main aspects: the fiscal regime, and what we call the operating environment. We feel that the fiscal regime needs to acknowledge the prospectivity of the country, the opportunities that we have here. It also needs to acknowledge the sorts of risks and the costs associated with deepwater exploration, because that is an area that we think offers material prizes for companies in Australia. So there needs to be recognition of those extra costs and risks in deepwater exploration. Also, given that a lot of the discoveries are small, the fiscal regime should recognise the fact that we are getting fields that are smaller rather than larger.

The second component that I talked about was creating an operating environment that actually encourages exploration. We think there need to be mechanisms to encourage and improve our knowledge of the deep water in more frontier areas; as I said, precompetitive work that comes before any large investments are made. We have a number of suggestions that we would put for that area such as increased non-exclusive work or increased work by Geoscience Australia. Again, it is work around trying to reduce the uncertainty and increase the chance of success before companies are making major investment.

Another proposal is not just to have it as government work but to put in place a mechanism where companies can carry out some of that lower cost precompetitive work. In return you would look for some sort of right to the area. Again, we have provided a bit more detail and suggestions and looked at examples from other countries of what they are doing to promote exploration in that sort of environment. As I said before, there should be terms that actually recognise the fact that you are out in deep water, in a high-cost, high-risk environment. If we do make a discovery, terms should be provided that give a significant rate of return on those deepwater or frontier developments.

Clearly, Australia does have a growing shortfall of oil production and that is something that we believe the country needs to address. Exploration needs to be encouraged. Australia is competing for a global pool of investment dollars. Therefore, we are looking to the government to provide incentives to encourage exploration.

**CHAIR**—Thanks for that. In your submission, you talk in fiscal terms about Australia being in the middle of the pack. What needs to happen to get us to move up that pack?

**Mr King**—Perhaps John will add to this, but there needs to be a range of improvements in the fiscal area. John, do you want to go through some of the proposals that we have put forward?

**Mr Vine**—There are the proposals that we have put forward plus the APPEA release that was out last Thursday in relation to some fiscal proposals that APPEA has put forward. We see some of those as being directly relevant to BHP and some not so relevant—that is, the small explorer incentive is not relevant to BHP. The pieces that are relevant to BHP are the increase in the long-term bond rate, the percentage add-on, the five per cent or the 10 per cent versus the current five per cent would provide a benefit for us.

**CHAIR**—Is the Gulf of Mexico fiscal regime relevant in this?

**Mr Vine**—It is a different regime. The secondary tax regime for the Gulf of Mexico is a royalty regime and they have, as you may be aware, a sliding scale of royalty depending on water depth in terms of discoveries. If you make a discovery in water above a certain depth, you get a royalty relief on the first so many million barrels of production. It is a different regime from our secondary tax regime. One of the proposals that APPEA has put forward is to have a barrel exemption in relation to oil discoveries and pushing what we would perceive marginal or subeconomic proposals over the line, making them economic proposals such that it would provide a win-win for both the government and the producer.

**CHAIR**—I will lead into that note you have on the work of Geoscience Australia. Are you really saying in your submission that, as the potential for return is marginal, perhaps government should share the risk?

**Mr Vine**—As I said, I think it is a win-win situation, to the extent that the government provides additional incentives to companies to go out and explore and the companies spend more money on exploration. Australia then goes up the ranking in terms of competitive countries—certainly in BHP's case—to compete for those exploration dollars. In that case, yes, the government is providing some cost, if you like, to that program. The corollary of that has to be that the more exploration there is, one assumes, the more success there is, and the government gets a return on its investment dollar.

**CHAIR**—With regard to Geoscience Australia, we heard evidence earlier this morning that in Iran there is basically no need for discoveries—they are there; you are there simply to commercialise them. Could you give some comment on the following: if, in fact, more and better data were pumped into Geoscience Australia, that would go a little bit of the way towards making the sorts of risks of entering fields less marginal.

**Mr King**—We could approach it at two levels. One of the aspects that we are suggesting with Geoscience Australia is that they can help to do work that will reduce the risks or increase our knowledge in more frontier areas. That is one aspect that we certainly want to address. It could be said that they have been successful in that regard to some degree. In one area where we are active—in the deepwater Outer Browse, which is a frontier area—a limited amount of work was done by Geoscience Australia. Some regional seismic data was acquired by them and that certainly helped to provide the sort of information that we needed to encourage us to then look at that area. I think the same would apply for some other areas in Australia, such as the Great Australian Bight. Geoscience Australia did the sort of precompetitive work that helped provide enough knowledge to then entice companies to come and make a closer evaluation. Again, it is a case of providing some extra encouragement.

We do not work that closely with Geoscience Australia to be able to make informed comment on the resource level, but I will make some general comments. They seem, to some extent, to be underresourced at times. Obviously there are cost constraints on them, as there are on industries, but the general sense is there. They are effective. Certainly we have a good working relationship with them and they contribute. It is a matter of getting the balance right—resourcing them at the right level—so they are effective. We are not proposing a major increase in their activity. There was a period when they undertook a lot of work themselves and I guess we would not support that. It is a matter of getting the balance right. At the moment it is close, but we need to make sure that they are adequately resourced or that it continues. I think they are the brains trust of Australia in geoscience knowledge and that is something that we need to protect. As to the marginal fields and their involvement in that, again, they have the technical expertise and perhaps they can do work in that regard. I guess that is more in a petroleum or engineering capacity.

**Mr Sutherland**—I think you are right. The principle focus is the up-front exploration area. We are seeking to gain greater knowledge of the geology in a certain area such that we can quantify the risk and then see if it is acceptable. If it is acceptable in the context of the fiscal return, then we can make an appropriate investment decision. If we do not have the knowledge, it makes it very hard to understand what risk we are accepting and, therefore, even if the return is excellent, we still may struggle to free up the funds to invest relative to other places in the world.

**CHAIR**—Mr Haase?

**Mr HAASE**—Thank you, Mr Chair, although you have asked most of the questions available to us in this briefing. The point that I would like to pursue is: we are hearing repeatedly—and each submission we receive from petroleum companies has a standard—that more should be done by way of financial incentive by government; APIA have the right idea and Geoscience Australia should be given greater funding. Obviously, there is a commonality through APIA. I find it interesting that Geoscience Australia is a cosupporter of APIA. APIA are calling for more money for Geoscience Australia. I would like some further solid information about what it is specifically that Geoscience can do to move Australian prosperity or opportunities from the midway level to a better position so as we get better exploration and so as we have a greater potential for revenue. The additional question is: why should we do so? If we are internationally midway, aren't 'moderation' and 'average' good enough? If not, tell us why.

**Mr King**—In terms of the role of Geoscience Australia and how effective Geoscience Australia are, the basic thing they need to do—and they do do it—is to provide access to data. We have a good system that means that data is released at some period after a company has explored. It becomes public domain. So it is very important that we have an organisation that makes that readily available so that any company coming to Australia can get quick access to that data. That is one of the really basic functions they perform; that is critical to a successful evaluation of areas.

Companies are less and less prepared to go out and do major regional studies. That is the sort of role we would see for Geoscience: providing that basic data that would encourage companies to come and look at new frontier areas. That is something that has been done in the past and has, as I said, been effective. It is not a major investment. It is enough investment to actually provide enough extra data to improve the knowledge to promote an area. If Australia wants to encourage exploration in areas that are not currently considered prospective then it needs extra information. Companies are not going to invest in areas that they consider extremely high risk. Often, that perception of high risk is just lack of knowledge about the area.

**Mr HAASE**—Can I interject for a moment. Can you tell me what it is that Geoscience is doing with its resources now that perhaps is of no benefit to the long-term plans?

**Mr King**—I must admit that I cannot pinpoint any area where I think they are doing unnecessary work. I can think back perhaps five years ago when they were probably doing things that we felt were unnecessary, but currently I cannot identify things that they are doing that are not appropriate.

**Mr HAASE**—Why should we be giving? Why should we move from our midway desirability point to a greater desirability point in the eyes of petroleum companies internationally?

**Mr King**—I guess it is us making a judgment of what we think Australia would want. We see a decline in liquids production, so there is that shortfall occurring. It is us making a judgment that Australia would want to redress that shortfall. We are saying that if we want to have those extra oil discoveries then there needs to be more promotion because, at the moment, it appears to us that the current investment level is not delivering the discovery rate that we require as a country. If we stay in the middle of the pack, we cannot expect to encourage more exploration or the required level of exploration. That is our judgment, but it is a decision that the country clearly needs to make: whether we want to stem that production decline or not. As a representative of BHP Petroleum, I am not saying that we should or should not be. If the country decides that we should be redressing that shortfall in production then we are offering suggestions as to how you could encourage exploration.

**Mr HAASE**—Fair enough. That is what our inquiry is all about.

**Mr Vine**—The other point on that is that the APPEA submission talked about the self-sufficiency of Australia in resources. As Geoff says, where we sit at the table today, in the middle of the pack, is not going to attract the additional resources to make us self-sufficient and therefore we run into balance of payments issues and those sorts of things. That is where Geoff is coming from in saying that, at the end of the day, it is a government decision as to whether we want to be self-sufficient and how we want our balance of payments to look. All that the

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industry and industry associations are saying is that this is a way in which, going forward, the government could address the perceived current shortfalls.

**Mr HAASE**—It is certainly my ambition as part of this committee that we achieve that, but we need to flesh it out and get the evidence.

**Mr CAMERON THOMPSON**—Your submission says the international perception is that Australia is a gas province with small oilfields—and that is what we have heard from all the other people today—yet you are saying that your emphasis is on liquids. I know you are experienced with Bass Strait, but why are you continuing to pursue that line? What is creating the drive for you to go that way rather than to get with the mainstream and go with gas?

**Mr King**—I want to be clear: we have a strong emphasis on commercialising the gas that we have discovered. If we can find or identify gas that we can commercialise quickly—certainly gas in Bass Strait and in our focus areas—and if we can get it to market, we are interested in exploring for gas. I do not want to imply that we do not have an interest in gas. I was just saying that, in our submission, we were really focused on promoting oil exploration because we see that as the main issue for Australia. The exploration for oil or liquids needs to be encouraged more than gas.

**Mr CAMERON THOMPSON**—Do you see that as a kind of national priority, so you are adopting it and running with it?

**Mr King**—No. Our focus worldwide is on oil exploration. We are more an oil exploration company and a gas commercialiser, if you are looking at an emphasis.

**Mr CAMERON THOMPSON**—I understand that, but what is behind that motivation? You have mentioned that it is in the national interest and that worldwide you have a view about liquids but, here, where everyone is more interested in gas than everything else, why are you maintaining an interest in liquids?

**Mr King**—Liquids continue to be what we would call a high-margin, high-return resource to explore and to produce. The company does have an emphasis on oil exploration.

**Mr TOLLNER**—That would be a deep market too, wouldn't it?

**Mr King**—That is right. If you discover a commercial resource, it is sold.

**Mr CAMERON THOMPSON**—Are you basically saying that you have the view that the international perception is wrong?

**Mr Sutherland**—The way we have approached it is to ask: in the context of declining liquids production, if we want to redress that shortfall or that trend, where are we going to do it? Our view is that we are going to do it in the frontier and deepwater areas of Australia. That is where we have the chance to find big oil, if there is still big oil out there to find. But if we are going to attract investment into those frontier and deepwater areas, away from the more globally attractive areas such as the Gulf of Mexico or West Africa, we are suggesting that there are a couple of ways that we can approach that. Certainly, the fiscal is one way to attempt to encourage investment over here. The other way is the operating environment—building the

knowledge base that allows us to quantify the risk that we are taking on if we go into those deepwater and frontier areas, to get us across that risk threshold that we need to be across to make an investment decision. The focus on oil is driven more by the prevailing perception that we are seeing a decline in liquids production in Australia and by the question of where in Australia we can change that, and we have deliberately focused on that.

**Mr CAMERON THOMPSON**—That answer is pretty good because it comes to exactly what I want to ask you about. When you talk about the frontier areas, is liquid exploration a frontier area? Rather than specifying that it be in deep water or anywhere else, for our national interests and for us to encourage exploration down a particular path or another, isn't the real frontier area the fact that no-one is really interested in oil and that we need to get some incentives behind that?

**CHAIR**—I do not know whether the word 'frontier' is correct; 'threshold' might be more appropriate.

**Mr CAMERON THOMPSON**—Or whatever.

**Mr Sutherland**—I think everyone would be interested in oil; the question is: where is the potential to still find big oil in Australia? We have a view that, if we continue to spend the bulk of our exploration dollars in the mature areas of the Carnarvon and Gippsland, yes, we will make lots of little discoveries, which is what we are continuing to do, but that will not stem the decline. If we want to stem the decline—and I guess we have assumed that we, as a nation, do want to do that—then where do we have to go and how do we encourage people to go there? What we are coming back to is a balanced mechanism: trying to encourage people to go and look for big oil in places where at the moment there is little incentive to do so relative to places around the world where there is big oil, such as in West Africa, the Gulf of Mexico et cetera.

**Mr HATTON**—Haven't we got big oil in uncrushed form around Gladstone—the Stuart shale oil deposits? There is about \$2 billion worth in terms of income replacement if that gets up and going, given all the problems that it has. Has BHP been interested in that line of development or only in looking for the liquid stuff?

**Mr King**—Again, I guess our focus has been on liquid because it is a high-margin resource. It is something we have looked at in past years. Clearly, we are involved in coal. We have looked at areas such as coal bed methane and I imagine oil shale at some point in time, but it is not something that we have looked at recently.

**Mr HATTON**—The company's view is not the country's view in terms of what you might do with the resources that are there. It is obvious from your submission that—and our position is with regard to how we can look after our needs and address the corresponding problem we have with the increasing shortfall, and that is in part why we are here—you have not been looking into those areas. One of the concordances that comes out in the evidence you have put forward is that we are about right in that about one per cent of the money is going into looking for about one per cent of the undiscovered resource, so there is an equation. But you could provide incentives in a number of ways. Given the global tax affairs manager for BHP is here, I will ask this question on the GST; I asked another company this. Given that you are in a primary area rather than in the secondary area of manufacturing, has there been any significant impact on the

company's operations in regard to tax, such that you are in an improved position to go and look for product as a result of the changes or is it only minor?

**Mr Vine**—If you are referring to GST specifically, I would have thought that GST has basically no impact on our investment decisions. We pretty much get a full refund of our input tax credits, so it is purely a cash flow issue from the time you pay your GST to the time that the government refunds it.

**Mr HATTON**—Comparatively, in terms of prior to it coming in, did it or sales tax have much of an impact on business?

**Mr Vine**—Not in relation to our business because, if one went back and looked at the sales tax regime, the principal pieces of our business did not attract sales tax. I would think it has had a minimal, if any, effect on our operations.

**Mr HATTON**—So it is only in the secondary areas of steel production and that sort of stuff where that would have had an impact?

**Mr Vine**—Yes.

**Mr HATTON**—I will turn to the broader question of Geoscience Australia that the chair referred to at the start. This is an interesting situation because there is a government department you have indicated may be—because you are not really sure—under-resourced. We can probably guess that is the case. You also have a situation where government department after government department has been asked to virtually commercialise its information. Yet, most of the submissions are saying, 'Give it to us free. Part of what the government should be doing is providing that precompetitive stuff so that we might get more exploration undertaken.' You have specifically indicated there is a bit of a problem with the exclusive work done by GA. Can you enlarge on that?

**Mr King**—On the aspect of the exclusive?

**Mr HATTON**—Yes.

**Mr King**—The notion of providing open access to data is important. It underpins our system because it encourages exploration. As soon as you start putting exclusive constraints on data that the government is providing it tends to undermine the fundamental system on which we operate. There are certain exclusive surveys carried out by contractors and data vendors and that seems appropriate. Their business is to make a profit out of acquiring those surveys, and they undertake some risk when they do that because they acquire it before they know they can sell it. But it seems to me to be in conflict with the government's approach.

**Mr Sutherland**—The premise that we have is that we need to be doing more in terms of building a knowledge base in the more frontier areas, and we see there are options for doing that. Geoscience could do more, or we could introduce some notion of an exclusive reconnaissance licence for the oil companies themselves to go out and build this knowledge base, obviously with their own interests in mind, but potentially with the information in the very short term being turned over to other companies. We are suggesting some notion whereby we would have exclusive right to an area where we could build up our knowledge base and we

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would then get to cherry pick where we would like to go. We would then turn that exclusive reconnaissance licence into an exploration licence, with the rest of the data being available to the rest of the industry. We are suggesting that that is a way where the oil companies could build the knowledge base as fast as or in a complementary fashion to Geoscience Australia—perhaps using their own funding to do so with, we suggest, some tax credits or tax benefits, rather than just relying on Geoscience Australia. So the ‘exclusive’ in our proposal was not meant to relate to Geoscience Australia; it was meant to relate more to the oil companies themselves getting an exclusive reconnaissance licence—a precursor to an exploration permit.

**Mr HATTON**—So to do on a smaller scale in a more focused way what you used to do in a bigger way but do it with a tax break?

**Mr Sutherland**—Yes; do it with a tax break and do it in such a way that we do not go through the competitive process, which can tend to be a long process from the time that we think we would like to explore in a given area to the time that that area gets gazetted, goes through competition and gets awarded. If we can very quickly identify an area, go and tie that up, do some technical work, build our knowledge base, quantify our risk and move forward, we suggest that would potentially be a faster process than the current way that we do things.

**Mr King**—Just to clarify my answer, we do not think the government should be doing exclusive work, but we do think there are opportunities for companies to do work and gain some advantage out of doing that work.

**Mr HATTON**—You also made the point that most of the shallow basins have been covered. Technically, how far down can we see? Are there improvement on the horizon that will lead to greater prospectivity because we will be able to see further into the mantle?

**Mr King**—We have the term ‘frontier’ because it is both geographic, in the sense that it could be remote or undrilled, or it could be a deeper strata, which could also be a frontier, but they have the same frontier characteristic—high risk and less knowledge. You need some encouragement, particularly if it is deeper, for instance, because there will be higher drilling costs and greater risks. So the term ‘frontier’ can apply geographically or deeper but you still need encouragement to do it because there will be less knowledge about it and there will be a higher risk.

**Mr HATTON**—But where are you in terms of how far down you can see? If you look at explorers across the world, it would be those people involved in exploration who would develop the tools to be able to see deeper and further into the crust. Are we a long way in front of where we were 20 years ago?

**Mr King**—In terms of the technology we are using?

**Mr HATTON**—In terms of the technology and in terms of how much you can actually see and feel.

**Mr King**—The technology has advanced significantly in the last 20 years—or even in the last five years. There are continuing advances. We are using that technology in more mature areas like Gippsland or Carnarvon, and it is helping us to find things—the more subtle traps. But the main point is that, within the mature areas, it is still less likely that you are going to find

big discoveries. You cannot say you will not but, in terms of probability, it is still less likely that you will find bigger discoveries in more mature areas. We are certainly applying the new technology and it is helping us look deeper but, in the end, the chance of major discoveries is less in the mature areas.

**Mr HATTON**—Is data mining a major activity in what you do? Do you go back to look at previous data and knowledge sets and re-examine them in the light of newer information?

**Mr King**—Most certainly, and I guess that comes back to the point about the role that Geoscience Australia plays in being a good custodian of the data. It is important that we can go back and get data that was acquired 10 years ago, re-evaluate and reprocess it, work on it to bring it up, and to make use of current technologies. That is an important point.

**Mr TICEHURST**—From the political risk perspective, you say there are a number of countries that have less risk than Australia. Which countries are those?

**Mr Sutherland**—I am not sure that that was in the original submission. Was it in there?

**Mr TICEHURST**—Yes, it was in there.

**Mr Sutherland**—I know the number was, but I am referring to the actual table. I could not tell you the countries exactly, but I can remember that in the third-party study that compared countries around the world, we were ranked 17<sup>th</sup> out of 103 countries in the list. I would be happy to provide you with the names of the ones that were ranked above us, but I could not do that off the top of my head. It was interesting to us; we had expected that we would have been ranked higher globally than we appeared on that list.

**Mr TICEHURST**—That is why I asked; I would have expected the same thing.

**Mr Sutherland**—Absolutely—there were some surprises. We looked at a number of different external sources to help our decision making process, and there was a degree of consistency in how they viewed Australia.

**Mr TICEHURST**—Recently we have had a group of environmental outcomes that have won a pocket of success, but some of their new proposals include wanting to increase company tax back to 49 per cent. Would you see that as being a political risk?

**Mr Sutherland**—I am sure that in regard to the frequency of change in our fiscal regime, some people would probably put it down to political risk. It does change relatively frequently here. In some countries where you look to go in, it is set for the term that you are there. We are happy to provide some more information on that if you would like.

**Mr TICEHURST**—How do you see the impact of, say, alternate liquid fuels?

**Mr King**—It comes down to a cost issue; it is a market-driven issue. The best resource will be the one that the people or the country favours in terms of what it uses.

**Mr TICEHURST**—Are you involved in any alternative fuels, other than, say, gas?

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**Mr King**—The petroleum group is not involved in any major evaluation of alternatives that I am aware of.

**Mr TOLLNER**—Do you think that the flow-through share concept has any application in funding junior explorers?

**Mr Vine**—From our perspective, obviously it has no impact. Talking to the junior explorers, they consider that this would enable them to attract more capital, which would enable them to spend more money on exploration. I think that at the end of the day, it is going to depend on whether the government is of a mind to bring back a system like that. We had a similar system back in the eighties. It is going to depend on the parameters under which that system is brought in. If the government wants to do that, I think one of the things that APEA, as an industry association, would be clearly looking to do would be to sit down with the government and go through the rules by which that scheme would be brought in. In talking to the junior companies, they clearly believe that providing an incentive to the investor will enable them to raise additional capital which they can spend on exploration.

**CHAIR**—Do you think they are right?

**Mr Vine**—I am not in the business of raising capital and things like that.

**CHAIR**—But you are around the traps.

**Mr Vine**—There are clearly systems around by which the government might look at that. They may look at the flow-through share scheme. The government in recent years has looked at grant schemes and things like that. I guess at the end the day it will come down to what is proposed and what the government is prepared to accept from an administrative perspective—how hard it would be to administer and things like that. But certainly my understanding is that merchant banks and people like that are saying to these junior exploration companies that that is clearly a beneficial way to go and of more benefit than grant schemes and those sorts of things.

**CHAIR**—Thank you for your appearance before the committee today.

[11.42 a.m.]

**CLEMENTSON, Mr Iain Mackay, Principal Geologist, Rio Tinto Exploration Pty Ltd**

**DAWE, Mr Chris, Manager, Human Resources and Community Relations, Rio Tinto Exploration Pty Ltd**

**FINLAYSON, Mr Eric, Exploration Director, Rio Tinto Exploration Pty Ltd**

**LEDLIE, Mr Ian, Exploration Manager, Rio Tinto Exploration Pty Ltd**

**CHAIR**—Welcome. Do you have any comments to make on the capacity in which you appear?

**Mr Finlayson**—As director of exploration for Rio Tinto here in Australasia, I report directly to the head of exploration in London. Mr Clementson reports to the exploration manager, Mr Ian Ledlie. Mr Clementson is shortly to become the exploration manager for Australia. Mr Ledlie is currently the exploration manager for Australia reporting to me. At the end of the year he will be leaving for London to take up a post there.

**CHAIR**—I would ask you to make a short opening statement before we go to questions.

**Mr Finlayson**—I would like to spend five minutes reviewing some key points that might provide some context for our submission. First of all, I would like to clearly differentiate between brownfields exploration, which is largely controlled by the mineral producers, and greenfields exploration, which involves both major companies and juniors. The risk involved in those types of exploration—brownfields versus greenfields—differs greatly. I think one can intuitively understand that it is a lot easier to find mineralisation in the environs of a mine than it is in an area where no previous mineralisation is known. This fact is clearly demonstrated through our own in-house analysis of exploration expenditures in Australia over the last decade and the paybacks we have achieved from each of brownfields and greenfields exploration.

Greenfields exploration typically requires sustained exploration investment before discovery is achieved. Discovery is rare and overnight success is even rarer. Wealth destruction in greenfields exploration is very easy and is the rule rather than the exception. The fundamental dilemma for us, though, is that greenfields discovery is required for mining to be sustainable in the long term.

The level of exploration activity is cyclic and is driven by relatively short-term business fundamentals, most notably metal price and competitor discovery. The reason for control by metal price is fairly obvious: at times of high metal price there is enhanced cash flow from producers and producers feel more comfortable expending more money on exploration. At the same time junior companies find access to capital easier through unsophisticated investors. There is little correlation between the overall level of exploration expenditure and discovery rate, and therefore there is little reason to use boom periods as the benchmark for a healthy industry. Depressed periods, such as we currently face, usually involve a focus on lower risk brownfields exploration by the major companies and a relatively low level of activity by the

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junior community. Boom periods typically involve much higher levels of high-risk greenfields exploration by both majors and juniors. Dollar burn rates are much higher but discovery is still rare, and there is much debate about the relative performance of majors and juniors at these times. I think it is worth pointing out that there is a significant speculative component with the junior company community. At times like this, when access to capital is difficult, the speculative component of that community tends to be in hibernation, but during boomtimes it re-emerges. I would have to say that for that particular component of the junior community discovery is a subsidiary objective.

Exploration is treated as an operating cost to a mining company and it is obviously tax deductible. There is currently no differentiation between brownfields and greenfields exploration from a taxation perspective; in other words, no risk weighting with respect to the level of risk involved in the two types of exploration. There may be an argument for considering differential tax treatment of brownfields versus greenfields exploration. However, differential tax treatment would effectively mean that government would be subsidising the industry and investing taxpayers' money in high-risk greenfields exploration. This is a policy issue about government's role in a free-market economy. Any tax policy should provide an incentive for and reward success—and in our terms that means discovery—rather than subsidise failure. Schemes such as refundable tax credits for junior companies and flow-through shares equate to government subsidised high-risk exploration. I make no bones about it: the majority of this exploration will fail. A trade in tax credits sounds like a reasonable market based solution, but again reduces the incentive of a company to succeed in its primary business objective of discovery.

The competitiveness of Australia as a destination for exploration dollars is not in doubt: the country continues to be the single largest destination for exploration funds, largely because of its mineral credentials and its low sovereign risk. Land access and regulatory processes do inhibit the industry. However, it is the lack of process efficiency, rather than the principles involved, that lies at the heart of the problem. More transparent, streamlined processes within both government and Aboriginal land councils would go a long way to solving the problem. That is all I have to say.

**CHAIR**—I note your comments on flow-through shares. On page 5 of your submission you talk about Rio Tinto's preference being an enhanced tax write-off. I put it to you that tax write-offs are only good if you are making profits. The big problem with a lot of these junior explorers is that they do not make profits, they are not cash flow positive and in fact they have no way of raising capital in the market. Do you consider they are an essential element of the exploration equation in Australia? If the answer to that is yes, what alternative do you have in mind to ensure that juniors can get the necessary capital to fund their expansion?

**Mr Finlayson**—At times such as this, where access to capital is very difficult, there are still junior companies out there that can raise funds. They are companies that have credibility and integrity, and they are recognised by the market as having such. So companies can still raise funds although not as easily as in boomtimes. Look at the flowthrough experience in Canada. Some \$5 billion worth of Canadian flowthrough funds was raised in a matter of about a decade between the middle eighties and the middle nineties, and one would have to say that the net present value of discoveries arising from that expenditure of \$5 billion does not exceed \$5 billion. In fact, there has been a net destruction of wealth—a substantial net destruction of

wealth. The reality with flowthrough shares is that it allows investors to invest in both good and bad junior companies. That is the crux of the issue.

**Mr HATTON**—You say that there are a few cowboys out there at present—

**Mr Finlayson**—As far as I know, yes.

**Mr HATTON**—and there will be in the future. In terms of assisting exploration here in Australia, what do you think would be the most beneficial thing the government could do at the moment?

**Mr Finlayson**—I am going to turn that over for comment to my Australian Exploration Manager.

**Mr Ledlie**—We are finding the amount of data becoming available from various departments and government bodies is excellent. The cost of most of that data has been much reduced or is effectively free; that is not such an issue. The prospectivity of Australia has been established for a number of key commodities that we explore for; so being able to justify expenditure within Australia, within a global platform, is possible and, for some commodities, it is a straightforward assumption. One thing that is particularly pertinent for us at the moment is the creation and timing of access. As Eric has suggested, for the greater part we have been fairly proactive in reaching negotiated outcomes with traditional owners. We have instigated environmental procedures and systems that match the most stringent in the country. For instance, in Western Australia we apply a higher level of environmental procedures and benchmarking than the state requires. That is fundamentally because we operate across state boundaries and we also see it as a competitive advantage into the future. It is certainly helping us to create access in jurisdictions where land councils require a higher level of environmental regard and performance.

One thing that we are finding difficult—it varies from jurisdiction to jurisdiction—is that some of the legislation that exists, if interpreted and applied in a positive manner and if the process is efficient, provides us with fairly short-term delays to accessing ground. In other areas, it can take quite a long time—in some cases, to such a degree that we are questioning our ability to persevere in some parts of Australia. But again we think it is more a matter of process and efficiencies in process, which at the federal level can play a major role in streamlining. Summing everything up, probably my main bugbear at the moment is that I have projects that I would love to be able to fund several years into the future, but at the moment we are looking at 12 months ahead to prove that we can perform in terms of gaining access.

**Mr HATTON**—The entanglements are just too great?

**Mr Ledlie**—We have been persevering in certain areas. In one area we have held an application for over 30 years. But, in terms of recent efforts, we have put in five years of concerted effort to establish access. Even at the eleventh hour, we still find frustrations that are minor and we have problems with the process and the system rather than a fundamental denial of access by the people on the ground.

**Mr HATTON**—I suppose you could say that is a very patient investment.

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**Mr Finlayson**—We have been very patient, and most of our competitors would not have been so patient. In fact, we get comments that we have been very patient. But I guess even our patience starts to wear thin and the business case looks pretty difficult if we cannot come up with the goods.

**Mr HATTON**—Naturally, because of the size, weight and density of the company and the fact that it is stable because of its worldwide operations, your perspective is entirely different than that of smaller players.

**Mr Ledlie**—Yes.

**Mr HATTON**—I was particularly interested in your opening comment about how tough you are, regarding the sort of cowboy mentality that operates during a boom period. We saw it recently with the dot com miners converging, coming from one end of Australia to the other, and we have seen it during other periods. That kind of efflorescence, I imagine, will always happen. At base, you are suggesting that the government should adopt a very hard-headed attitude towards those periods of time.

**Mr Finlayson**—Essentially, yes.

**Mr HATTON**—And that discovery does not come cheap, but it also needs to come on a sensible, sure-footed basis.

**Mr Finlayson**—Absolutely.

**Mr HATTON**—I suppose the equivalent thing at the moment, because we are in a drought period, is this notion of Farmhand. You are not suggesting a ‘Minehand’ approach at all; in fact, you are suggesting entirely the reverse of that—that the basis for it has to be entirely commercial, that whatever we do has to be fair to companies like yours as well as to the smaller operating companies and that we should not just be giving a handout in order to get the thing going.

**Mr Finlayson**—That is absolutely right. As I pointed out, any incentive should be there to promote success.

**Mr Clementson**—The government already provides incentives to the junior explorers through the excellence of its geoscientific research and studies, which it makes freely available. That is perhaps one of the best means of stimulating meaningful exploration by the junior end of the market—doing the base level research work, doing the studies in new frontier areas which will allow those companies the opportunity to recognise opportunities quickly and cheaply and to move on them. They are quite nimble, which is something that major companies are often accused of not being, and that sort of stimulation is very significant.

**Mr HATTON**—Thanks.

**Mr TOLLNER**—I am interested in your feedback on how you perceive the Aboriginal land rights act in the Northern Territory is operating. I have talked to a number of representatives of mining companies in the past, and what they say behind closed doors is completely at odds with what they say publicly. Obviously, there are issues there in that they have to deal with the land

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councils and that sort of stuff and they do not want to offend people, but quite often they do not have the intestinal fortitude to put their thoughts publicly. Can you comment on that? I am aware that you have interests in ERA at Ranger uranium and that sort of stuff. Can you explain some of the impacts that legislation has had on exploration in the Northern Territory for Rio Tinto?

**Mr Ledlie**—It is topical at the moment. We are interested in, and have put some feedback towards, the review of part IV of the land rights act that is currently in progress. We have made some comments that, from our perspective, would help improve the process. As a piece of legislation, we find that it can be made to work and we have invested a lot of effort in establishing agreements that we have signed. We signed up an area of 12 agreements the other day in the Territory under that legislation. Although we have received some internal questioning as to the tenor of the compensation schedule attached to it, given what we are looking for, it is still competitive—although at the top end of the market—to sign that agreement.

One thing we find difficult is progressing from signing an agreement—which has taken us many years and a lot of legal time to develop; we have also dedicated a lot of resources to it, including employing a manager of community liaison, who has worked almost solely on that for in excess of five years—to being able to get on the ground. That has raised, for us at least, some questions about the internal governance, process and transparency of how we as explorers are represented to the traditional owners and then how we can actually establish access on the ground. We have found elsewhere that our credentials are well established—for example, in the Pitjantjatjara lands in South Australia, which have been closed to exploration for 25 years. In the last three years, we have been able to establish agreements, get on to the ground and establish good relationships with the people there, and I think we are the only active explorer in those lands at the moment.

We would like to be in the same situation in Arnhem Land, under the ALRA there, but progress is slower. A press release put out by ATSIC last Thursday morning made some comments about their perspective on the implementation of the ALRA and how we could look at improving it. We would endorse those comments, but we have also made some specific recommendations to the review in progress at the moment. One of the high points would be that there exists already the Aboriginal sacred site protection authority in the Territory. In the past we have found the anthropological services provided by that authority to be very professional, effective and fair to both parties. They have allowed us to get on with the job. We would appreciate that or a similar service operating where we are trying to get into at the moment.

**Mr TOLLNER**—Do you find differences in dealing with the Central Land Council as opposed to the Northern Land Council?

**Mr Ledlie**—We do.

**Mr TOLLNER**—Can you expand on that?

**Mr Ledlie**—I think there is a fundamental difference in philosophy between the two. Certainly, in terms of access in the short term, the Central Land Council, as a matter of public record, has had a much greater number of agreements processed recently.

**Mr TOLLNER**—The Northern Land Council, we were told last week, had none.

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**Mr Ledlie**—I am not sure whether it was an agreement or a granting of tenements, but that is correct. This year we have made progress with agreements under the NLC banner. We have signed a landmark modelled agreement for native title which allowed the granting of in excess of 25 exploration tenements on native title land this year. Our progress on ALRA land has been much slower.

**Mr TOLLNER**—In regard to that, the NLC and the CLC said in a submission to this inquiry that the cost of the negotiation process was minimal in the eyes of mining companies. Can you confirm or deny that?

**Mr Ledlie**—I would confirm the exact opposite. We have made, as recently as last week, a submission to one of the councils where we are finding the cost as well as the delay to be effectively crippling. As a geographically specific example, in Arnhem Land, because of the diversity of people's living areas—and this is for an exploration application, with no guarantee of getting on the ground—a consultation meeting usually costs \$30,000 to \$35,000. We pay for the anthropologist's time or the NLC representative's time. The majority of the cost is from charters—bringing in people from across the Territory or the Top End. Part of that could be in the interpretation of the act. The wording is quite loose in that it refers to people who are affected by our activities. If you interpreted that loosely enough, we could fly all the Territory to the meeting. Another recommendation we have made is to change the wording to 'directly affected', so that we would be looking at smaller gatherings of people for a particular tenement application and so that we would not be faced with bills of \$35,000 for one meeting. That is usually followed up by a subsequent final consultation meeting, which is another \$35,000. There is usually some sort of a consent survey following that, which could be anywhere from \$20,000 to \$30,000, at which time you might find out how much ground you can access. So on each application, which could be the size of a postage stamp—and we are currently trying to establish access to in excess of 40—we could be looking at costs of \$A100,000.

**Mr TOLLNER**—Each?

**Mr Ledlie**—Yes. That is just to find out whether we could potentially conduct exploration there or not. From that stage on, we would be looking at formal clearance surveys to find out where we can actually go on the ground.

**Mr TOLLNER**—I wonder if you might like to comment on the review that is taking place. The review stems from an options paper that was sent to the Northern Territory government by the minister for Indigenous affairs, Philip Ruddock. One of the items in that options paper was that the government would consider, providing it could get it through both houses of parliament, the patriation of the Aboriginal land rights act to the Northern Territory government. It is something that has not received much airplay, but do you feel that the Northern Territory government could be more responsive to the mining industry in regard to that act than is currently the case with the Commonwealth government?

**Mr Ledlie**—Basically, I am not sure. I do not know. I have not really looked at that question at all.

**Mr TOLLNER**—Land matters are generally dealt with by state governments. Should that also apply in the Northern Territory?

**Mr Ledlie**—Across Australia, there is a fair variety in how states handle it. For instance, in Queensland, we are not active at all in exploration because we basically are not able to establish access agreements. The philosophy there has been difficult to persevere with, such that we have effectively pulled out of exploration there. That sounds fairly stark in isolation. To put it in context, we do not have any high priority targets there at the moment that would motivate us to put the effort into establishing access. I think it is fair to say that, in any jurisdiction in Australia, with enough motivation, you can establish access. We have the advantage that we have a company position that we are happy with that advocates a negotiated outcome. So we are happy to go in and negotiate with whatever council, Aboriginal corporation or representative body that represents the particular area.

**Mr TOLLNER**—With your indulgence, Mr Chair, I have one quick question completely off my line of questioning. You have mentioned publicly that you do not support any further development of the Jabiluka uranium site without the support of the traditional owners. I am just wondering why that is. Does Rio Tinto not have a great interest in global uranium markets? What led to that public statement?

**Mr Finlayson**—I would think it is fairly obvious. I do not think it would be particularly astute to try to bulldoze through development of a resource when there is no agreement with the traditional landowners. I cannot see why we would ever want to do that. As far as our interest in uranium is concerned, as long as it is a healthy commodity and makes money for the company, we will pursue it.

**Mr TOLLNER**—Do you not have an interest in promoting the use of nuclear energy or uranium consumption?

**Mr Finlayson**—Promoting? We are essentially servicing a demand; that is the end of the story. I do not think we would go out and promote the use of nuclear energy.

**Mr CAMERON THOMPSON**—My interest more or less follows on from what David was on about. I appreciate the comments and the submissions that you have made about the bureaucracy within land councils and governments affecting access to the land in this case. I hope that we can get straight answers out of people—I do not think this is speaking too much out of school—and that not all of them have to be transferred to London, or promoted to London, before we get the full bottle on this issue!

The land councils that spoke to us in Darwin said that they really did not see the benefit flowing back to their people in terms of jobs and that they did not have the interest if all the jobs went to non-Aboriginal people and those who came in from outside. They could not see the lure when most of the benefits were going to outside people. I do not think I am misrepresenting the Northern Land Council and the comments they made in Darwin about this. In my area in Queensland, your subsidiary Tarong coal is doing a fantastic job with its Tarong community fund. It has just won a huge national award for the amount of effort and the money that is being ploughed back in to create apprenticeships in businesses that are completely unrelated to your enterprise there. Have you ever thought of applying that kind of principle to Aboriginal communities and, if so, what has been the outcome?

**Mr Ledlie**—We apply the same principle across the board. It is just that it is a bit easier to apply when you have got a business unit making money sitting next to you. At exploration, we

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offer a high percentage of employment; in fact, it is probably much higher than most mines. But sometimes we are talking about six people out in the bush, walking through the bush, mapping, taking soil samples, hitting rocks or sitting on a drill rig. We make it very plain to people whenever we go into communities that we are not offering token jobs. They have to be real jobs, and the people have to go through medicals to be able to partake in the employment on the same basis as any other employee, and they have to be trained. For example, in a typical soil sampling or mapping program that we conduct in the Musgrave area of the Pitjantjatjara lands in South Australia, probably 30 to 50 per cent of the guys on a team would be local employees. We would aim to do that anywhere we work where we can basically get people who are keen for a job, are able to pass the medicals and are able to be trained.

**Mr CAMERON THOMPSON**—Do you think their perception is wrong when they say that they do not see the benefit flowing to their people the way it should, particularly in terms of jobs and advancing those people? They have said that the vast majority of jobs are not for them. It is not that they do not want them; it is just that they cannot get them.

**Mr Ledlie**—I think it has to be taken in a historical context. It is purely based on the operations that they see at the moment.

**Mr CAMERON THOMPSON**—Is this a chicken and the egg thing?

**Mr Ledlie**—A little bit. A bit more exposure to better examples or more contemporary examples of that model of local employment would be of benefit and may make those people appreciate what could happen.

**Mr HAASE**—There are many questions in this field, and I would hate to add my thanks that you are going to England! I know the good work that Rio Tinto does. I know that, through the Hamersley Iron subsidiary, much great work has been done in the Pilbara region with Gumula and other efforts. That is well known to me, so I am digging deeper than that. You have constraints on getting access to certain parts of the country, and you mentioned that you have the experience of some 30 years leading to an agreement and there is still no agreement.

**Mr Ledlie**—There is this year.

**Mr HAASE**—So it is arriving?

**Mr Ledlie**—We have signed an agreement.

**Mr HAASE**—That answer does not suit my question. To be specific, we hear this much publicised argument about denial of access to land for heritage or cultural reasons. But when the resource is rich enough and the financial reward given is large enough, do you think those heritage and cultural problems disappear?

**Mr Ledlie**—No. I would say that there are some areas in the country where people's connection to the land is still strong enough that they can indicate to us areas that cannot be compromised. In some cases—very rarely—that can be a whole exploration block, application or tenement. When that happens and we can judge for ourselves that the people are speaking with authority and basically know what they are talking about, we accept that it is just a no-go area and we do not pursue it. However, when you have found a resource of significant value in

an area which has been cleared but which, as a secondary effect, may impinge on other areas, then very definitely it becomes a case of negotiation and compromise on both sides. From what I have seen, people are prepared to talk.

**Mr HAASE**—We have already asked about the value of resource development to Indigenous people, and you have explained that you do allocate jobs and that the employment benefits ought to be considered. Do you find that the unemployment benefits the Australian government pays to people still on the land are an impediment? Is sustenance already achievable within the Western system, and therefore the financial rewards, by way of employment, have no great significance?

**Mr Ledlie**—It is a factor, but then there is the self-esteem and self-respect aspect, and that was indicated strongly to us recently in a letter we received from the MSOs of a local community in the Pitjantjatjara lands. They indicated that the difference in people having a meaningful job, receiving a pay cheque and being able to work on their own land was obvious in their eyes. The people were motivated, and they would actually get up in the morning and race out to work.

**Mr HAASE**—Give me your opinion then on why we are hearing that this opportunity for employment is not significant enough to give you access to country? Why do you think we are hearing that?

**Mr Ledlie**—It is the case that some areas—and I do not mean to put it bluntly—need us less. In some areas of the country, the local people realise that, basically, we are probably their only chance for participation in Australia's economy. In other areas, there may be other alternatives or they may just not know what is possible.

**Mr TOLLNER**—Such as?

**Mr Ledlie**—I think in some areas there are expectations that ecotourism, tourism or a variance of that would be a viable alternative. In other parts of the country where the local people do not have the luxury of an attraction that would suit tourism, we are probably the only people they see on a regular basis, apart from employees through the government system.

**Mr TOLLNER**—What would be the attraction in Arnhem Land to not encourage mining?

**Mr Ledlie**—I think the main difficulty there is history. Exploration was done there in the sixties and it was not conducted particularly sensitively. That has impacted on people's psyches, and people have got very long memories. That is a problem for us at the moment. We are lucky that it was not our company that was responsible for that, but it does not matter; it is the industry. It is surprising that we have as many people as we do actually inviting us in, given the history. The other example is the operations that exist currently. I do not know them very well, but whatever perspective is being gained is probably based on what people have got access to.

**Mr HAASE**—I want to know your opinion of the anthropological expertise today. In your opening comments, you mentioned the quality of anthropological advice, and you were specific to a particular organisation. What was the organisation you complimented?

**Mr Ledlie**—It was the AAPA, the Aboriginal Areas Protection Authority. In the Territory, we find that to be a particularly well run and effective organisation. The clearance surveys on our tenements that were granted under the model agreement with the NLC this year were conducted by the AAPA, and they have been the most effective and efficient we have seen so far.

**Mr HAASE**—My line of questioning is about finding out whom you have to deal with to get access to country and how final such an agreement is because your knowledge of whom you need to speak to is good. I would like you to elaborate on that. Have there been situations where available anthropological knowledge elsewhere has created the situation where you have been in negotiation with the wrong people or an insufficient number of people or the area is larger than you imagined? Can you comment on that, please?

**Mr Ledlie**—There is a large contrast within Australia on this issue. For more traditional areas where people have a strong connection to the land, if the required research has not already been done, it does not take a prohibitive amount of time or money to do that research to find out who you should be dealing with. I draw on the Pitjantjatjara lands, areas within the Pilbara and Yamatji, areas of the Northern Territory, CLC areas and NLC areas, where the search for people you should be talking to is not a major blocker.

I believe from what I have heard most recently that the situation you describe is probably the issue in eastern Australia, where people's connection to the land has been disrupted or in some cases severed. We have a whole different perspective from some of our business units, and you mentioned Tarong. With some of the other coal operations on the east coast, their biggest issue is doing a clearance survey because the people have not had the connections so you are researching ethnology, culture or artefact scatters and, therefore, you have to introduce an archaeologist. When we do a survey, the people know exactly where they are and they know exactly what the story is. We could go back with someone else six months later, and they would point out exactly the same boundaries in the middle of the bush with no GPS, so there is no doubt that people know exactly where they are and what is going on, and we get the same story that is repeatable. So we have a far different problem.

**Mr HAASE**—Finally, it is interesting and it follows from your comments: in the goldfields, for instance, where one would imagine that there would be a similar arrangement to that in the Pilbara, why are we finding so many originally overlapping claims in native title claims if it is clear who speaks for a country and where the delineated borders are? Why should there be this confusion?

**Mr Ledlie**—I am not the best person to offer comment on that. I have no experience working in the goldfields and, unusually for mining companies in Australia, we have no recent history there. Chris may be able to offer a comment. He has a broader range of experience there.

**Mr Dawe**—There are a number of reasons. One is that it comes back to the land council. Going back to something that you said, Yamatji Land and Sea Council, which operates essentially in the Pilbara region, has had very positive experiences with mining companies. You mentioned Hamersley and the more recent arrangements that they have made with local communities, which have been seen by the communities to be beneficial—they give employment opportunities, income and everything that logically flows from that to the community.

Yamatji's experience has been positive, so Yamatji has taken a proactive approach—I do not like the word 'proactive', but I cannot think of a better word—to encouraging exploration in their lands because they see that only through exploration can you find new mines, and from new mines is going to come employment. I suspect that the Goldfields Land Council has not had the level of experience that Yamatji has, so the incentive, or driver, to clear up these issues to facilitate exploration has not been there. What we found in the Pilbara is a very strong driver from the land council to support exploration. The only way that you can do that is by sorting out the claimant groups and clearly identifying who speaks for that country, promoting them to the exploration company and the anthropologist to get the clearances. As I said, I do not think that that experience exists in the goldfields, therefore the driver to resolve these issues simply has not been there. They have had other political imperatives that have driven their priorities, not exploration.

**Mr HAASE**—Are they a political family?

**Mr Dawe**—They have moved on. It is difficult to establish connections.

**CHAIR**—Thank you for appearing before the committee today.

[12.24 p.m.]

**WALKER, Mr Ian William, Managing Director, Metex Resources Ltd**

**ACTING CHAIR (Mr Hatton)**—I welcome the representative from Metex Resources Ltd. Do you have any comments to make about the capacity in which you appear?

**Mr Walker**—I am also a non-executive director for an associated company called Elkedra Diamonds.

**ACTING CHAIR**—Would you like to make an opening statement before we proceed to questions?

**Mr Walker**—Yes, I would. Firstly, Mr Chairman and honourable members of the House of Representatives Standing Committee on Industry and Resources, I would like to take this opportunity to thank you on behalf of Metex Resources and to address you on a subject that is of critical importance to the future of mineral exploration and development in Australia. Metex is an Australian Stock Exchange listed public company, with approximately 1,400 shareholders holding a total of 153 million shares. The company listed in December 1993. Metex is also the largest single shareholder of a new exploration company floated in January of this year, known as Elkedra Diamonds. Elkedra Diamonds is a greenfields diamond explorer operating in the Northern Territory. Metex itself is in a joint venture in the Laverton and Kalgoorlie regions of Western Australia with one of Australia's leading gold producers, AurionGold Ltd. Unfortunately, AurionGold itself is in the process of management control passing to a listed major North American company, Placer Dome, as a consequence of a successful takeover.

Metex has spent, on average, about \$1.2 million to \$1.5 million per annum on exploration for the last 10 years and has been fortunate enough to make at least one significant greenfields discovery for gold—the Chatterbox gold resources of approximately 600,000 ounces in the Laverton area of the north eastern goldfield. The company has rigorously stuck to its exploration mantra and never pursued market driven opportunities, such as the technology boom of the mid- to late-1990s. We believe we have an excellent understanding of the problems that junior explorers have experienced in recent years and are of a view that urgent and sustained action by governments at both federal and state level is required to address the issues raised in the terms of reference of this committee. The need is urgent and the outcomes are essential.

In our submission we have focused on issues such as accessing capital, access to land, public provision of geoscientific data and the structure of the industry. In our own way we have tried new initiatives. One such effort was an attempt to convince the Australian tax office—and I do not know how many of you had this sort of experience, but I can tell you that it can be extremely frustrating—that an ATO endorsed product ruling could be used to stimulate mineral exploration. After two years of frustration, the ATO simply changed the act. Since then, we have been an active supporter in promoting the flowthrough share concept being canvassed by groups such as AMEC.

The crux of our presentation is simple. There is a sea change that recognises that the days of finding a host of near surface or outcropping deposits in a relatively immature exploration environment have gone—they went years ago. This does not mean that new deposits are not there to be found, but it does mean that the lead times are going to be longer and the cost of discovery greater. This is the problem for greenfields explorers. I should say that we perceive ourselves as genuine greenfields explorers. How this is undertaken in an industry where larger companies are simply not prepared to take the risk and smaller companies simply do not have the financial capacity highlights the dilemma. Our submission makes some suggestions on how this might be achieved.

Firstly, make investment in mineral exploration attractive. Junior exploration companies rely on retail investors who have a range of tax effective alternatives—we are not talking about subsidies or tax concessions—whether they be agricultural, plantation based or genuine R&D investments. Canada has adopted the use of flowthrough shares as a means whereby retail investors—and I stress the word ‘retail’—are allowed a personal tax deduction for expenditure incurred. It is significant that Canada is one of the few places in the world where current exploration expenditure levels are being maintained.

Secondly, there is over \$500 billion invested in superannuation in Australia, and that grew by \$51 billion to the end of June last year. Australian fund managers need to be encouraged—and perhaps even given incentives—to support Australian companies and redevelop an appropriate level of expertise in assessing resource based opportunities. You do not have to go through many of the major fund managers in the eastern states these days to know that resource analysts are comparatively rare. My personal belief is that investment in small cap or start-up companies should be given some form of concessional treatment. Thirdly, one of the most complex issues facing the industry is native title and the current unworkable ad hoc system affecting states and territories. In some form or another, this issue has to be resolved. It should be a priority for all stakeholders, and there has to be a will to achieve a workable outcome.

Finally, I want to talk about the structure of the industry and the role of small companies. Despite some recent comments, small companies have been extremely efficient in finding new deposits. On our figures, 60 per cent of greenfields discoveries of gold deposits since 1975 have been made by junior or mid-tier explorers. The performance of larger companies has been lacklustre. Unfortunately, what is now left in Australia is a two-tier structure. One tier is dominated by larger, offshore-headquartered companies with little or no inclination for grassroots exploration and the second tier is made up of juniors with little or no funds. This is increasingly leading to strategic alliances between the larger and smaller groups. Although the smaller companies remain in business, these relationships are essentially captive relationships and generally involve a takeover of the junior party if the relationship is successful. I hope you have found this summary useful, and I look forward to answering any questions you may have on our submission.

**ACTING CHAIR**—Thank you, Mr Walker. I found it a refreshing analysis; it was brutal, frank and direct. I figure that we could actually contract out part of the report writing to you because your presentation gets to the core of the problem which is that, historically, there are layers of difficulty here. As you just outlined in the latter part of your presentation, what we are dealing with is the fact that the field has entirely changed. The whole structure of the industry is different, and some of the companies we have heard from previously are no longer doing what they used to do. Effectively, the small companies are in a position where they are just contracted

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out to those larger companies, and that is part of the core of what you are about. However, we have some members who are eager to commence questioning.

**Mr TICEHURST**—You state in your submission that land access is the single greatest impediment to mineral exploration. Can you give us some examples of the problems you have encountered and the solutions you have in mind?

**Mr Walker**—Our main area of focus is in the north-eastern goldfields. In our recent discoveries—I made mention of the Chatterbox assets—we have actually had two MLs granted on those resources. This was completed about 2½ years ago. We did that in conjunction with a working group in the north-eastern goldfields. We worked with what was known as the NEIB at that stage—the North East Indigenous Body. This was a trust set up by the claimants, of which there were 92 individuals. It was sponsored and, I guess, championed by Sons of Gwalia, at that point in time, and also by a chap running a group called Mount Burgess Mining.

We successfully got the state deeds for those MLs after about six to nine months of quite protracted negotiations. I can tell you that it was not a nice experience and eventually that body collapsed due to internal fighting. It got to the stage of money being put on the table to resolve the issues. I found it particularly unpalatable. As I mentioned, I am involved with Elkedra Diamonds in a non-executive capacity and we have worked very aggressively with the Central Land Council in the Northern Territory. We have found them to be very cooperative and very understanding and we have developed a very good relationship with them. We have not attempted to get any further mining leases granted in the goldfields in light of our previous experience.

**Mr TICEHURST**—You also mentioned in your introduction that the application of the Native Title Act was ad hoc. Can you expand on that comment?

**Mr Walker**—It depends on where you go in Australia. As we have heard already, reference has been made to the fact that in Queensland it is basically in the no-go area, and so there is an interpretation of how things will work there. In Western Australia we find that, depending on where you are and what land council you are dealing with, various outcomes are possible. Our view is that it is a very difficult situation, where you have a federal umbrella essentially trying to, I guess, ‘jurisdict’ a state issue. We find that we are constantly on a learning curve of what is expected of us, if we are to go down a process of achieving some sort of sensible outcome to get a title granted. Through groups like AMEC, we have been involved in trying to pursue regional ILUAs and the like. We see that as probably being a way forward. But personally our experience is that, depending on where you are, what state you are in, you have to have a different method of dealing with these particular issues. We have been or were active in Victoria for a number of years; we found that that was much easier to work in as an environment than Western Australia. As I have said, as an area to explore in, we have really written Queensland off.

**Mr TICEHURST**—How have you found new and improved technologies impacting on accessing and getting more effective results from tailings and with competition in exploration?

**Mr Walker**—We really do not get involved in the new technologies, if you are talking about things like bacterial oxidation or new metallurgical processes that are involved in extracting gold. I guess our experience is that these are innovations that have come with time. New

technologies in exploration is a totally different matter. New technologies in exploration is an area that our company sees as being an integral part of our exploration armoury; they are essential. I think I made the point in our submission that these days you consistently have to drill deep holes to find new deposits. You can only do that if your focusing methodology is as accurate as possible. Things like advanced electromagnetic systems, magnetic systems and gravity borne systems are an integral part of that inventory. It is essential—this is what people seem to miss—that, if a junior explorer is going to be efficient, that armoury has to be at his disposal as much as it is available to a larger group.

**Mr HAASE**—I want to give you the opportunity to give us an alternative perspective to that of the last witnesses. I am very much in favour of the introduction of tax concessions and the like of flowthrough shares, but we seem to have had some mixed evidence as to the efficacy of such a program. I would like you to explain your knowledge of the Canadian experience—whether or not you think it has been cost effective for government, or whether perhaps money has been destroyed. Can you contrast that with you, as a junior explorer, in your evidence showing why we ought to be putting money in through flowthrough shares? We have heard that there are some problems there of slippage. How do you imagine governments might regulate the situation so as to make sure that explorers are working on highly prospective ground rather than simply keeping the show on the road and using up the money to fulfil a flowthrough share contract?

**Mr Walker**—I would make a couple of comments here. I have mentioned the fact that originally we pushed pretty hard with the product-ruling concept, which is essentially used in agriculture. There have been enormous amounts of money raised for that. I think the flowthrough share issue has been tainted to some extent by experiences in Canada. Those experiences are historical, and what is not mentioned is the fact that they were discontinued in Canada and then reapplied only a couple of years ago.

Secondly, we are talking about a different investor base—and I think this is the point that people miss. The appeal of companies like Rio is institutional investors. Companies like ours get all their support from retail investors. These are people who perhaps have a multitude of investment outcomes that they can invest in. In the last few years, we have been competing in the retail end against investors in IT stories, biotech stories, R&D concessional stories or even tax effective investments in agriculture. Essentially, we are not asking for a subsidy; we are just talking about a level playing field applying to an investment in R&D exploration technology in comparison with what is already available for other investors. I see no difference between an investor who is an orthopaedic surgeon or a lawyer investing in a forest and saying, ‘That’s my tree; that’s my forest,’ versus that same orthopaedic surgeon investing in an exploration tenement and saying, ‘Well, there’s my commitment to exploration.’

The principle of the flowthrough share scheme is that, when a company spends exploration dollars, it then issues literally a dividend certificate; it is the amount that is credited to exploration going into the ground, which then passes back to the investor who made that investment. In the Canadian examples—and they are used at both a federal and a state or provincial level—there are concessional rates on that which range up to 150 per cent. In many respects, the issues that you address with your comments about flowthrough shares are no different to the issues that have been raised with the product ruling application methodology and managed investments in agriculture. One of the things that the ATO did just recently was basically to come down very hard on what it called the 13-month prepayment period. For the first few years of those schemes, people could claim a deduction for investment that was

occurring five years down the track. What people do not realise is that, in the actual mineral exploration provisions of the Tax Act, you are actually allowed to do that.

When you introduce schemes like that, I think you are trying to develop a manageable regime for expenditure, and it might be that there is a limit to how much can be claimed in any one year on an individual expenditure proposal. The other thing is to see that, with the resources being in place, you do not get what happened in Canada. That is, for all the diamond drillers and analytical laboratories, instead of it being \$30 a metre to drill diamond core, it suddenly went to \$100 a metre—things like that. They all cause distortions. But, essentially, I think the proof of the pudding is in the eating. Canada has maintained its exploration profile of recent years. It is not a wealth destroying industry. I can tell you of any number of wealth destroying industries in IT or whatever. But to claim that mineral exploration at that particular point in time was the exception rather than the rule certainly I think is wrong. As long as funds are managed properly, you will get the outcomes. You do not need boom times to do that; you do need some sort of regulation that prohibits excesses—and that is ASIC's job.

**Mr HAASE**—Can you give us a reason for our having heard evidence suggesting that it is not a panacea? Perhaps you would like to elaborate on the possibility that the large mining companies would lose their institutional investors if junior explorers became a more popular investment with the opportunity of flowthrough shares.

**Mr Walker**—I do not know if it is necessarily a case of losing the attractiveness. Essentially, what it does is recognise that there is a problem here at present. Again, my own personal experience is that it is not easy to raise funds at present, in the current climate; even though the gold price is a little better and the like, the money is simply not there. It is hard to get that. The way I see it is that a company that is transglobal, that has a global outlook, has a much longer lead time in the process of discovery, bringing on projects and the like. In our case our lead time is 12 months. What I am getting at is that we can only financially see ourselves ahead for any 12-month period at a time. I guess we do not have the luxury of having alternative cash flows sustaining our exploration efforts. That is really the crux of the argument that I am putting up—we are totally dependent on the market for our success.

**Mr HATTON**—I am very impressed with parts three and four of your submission, because they give context to the whole story and the fact that not only have we seen the major companies not do as much exploration but, of course, ownership has changed: the North Americans and the South Africans have been able to buy out a lot of those companies and therefore, as you are arguing, there is a less interest in going further and having a bit of a look. There is also the impact of the professional geoscientist, which you point to, in that there just are not the jobs for them; there is so much high unemployment and so on. Can you expand a little on what the further impact of that is? How many people are going overseas to seek work and how many people have gone into other areas?

**Mr Walker**—Briefly, I draw my conclusions from groups such as the AIG. In 1996-97 there were something like 6,800 geoscientists working in Australia. That figure is now down to 2,200. They have gone but they have not gone overseas, because the opportunities are not there. They have gone into other careers. I made a comment about AurionGold and Placer. This week alone there are at least dozens of contemporaries who have worked with us on joint ventures who are going to lose their jobs. It is a fact of life.

These people, particularly those in the 15- to 20-year experience bracket, are retiring and setting up their own businesses, or basically removing themselves from the industry altogether. There are not the opportunities in things like salinity research and environmental geology and the like in the future. We have started a process now which, if not reversed, will certainly not see the interest created at the beginning with people coming into tertiary institutions, and progressively we will see more and more individuals moving out of the industry.

The last six months have opened up a few opportunities where the more entrepreneurial ones have managed to get a bit of support and have managed to get a public company away, but that is really not the answer. So, to be quite frank, the outlook for geoscientists is very bad. I am very sceptical about how the dichotomy that exists between small companies and big companies in Australia can continue to evolve. One thing that has happened recently which has been of help is that a lot of these offshore companies, particularly the South Africans, have come in here without expertise and they have readily embraced the smaller more aggressive Australian groups to help them through that learning curve. But, again, I say that is a bit of a captive relationship.

**Mr HATTON**—And that will run for a period of time and then peter out once they have served their purpose.

**Mr Walker**—I honestly do not know. I think we are going back to the days of the 60s and 70s when minerals exploration was dominated by major offshore groups. We did at least have the luxury of having a BHP, a Western Mining and a CRA then, but they have gone. I think we are somebody else's backyard.

**Mr HATTON**—So we are facing an entirely different structural climate in which to operate.

**Mr Walker**—Unless there is a change in sentiment, we are in a period where what we have now may continue for the foreseeable future.

**Mr HATTON**—And among our greatest assets are those geoscientists who are going or gone. Based on your past experience of when we have these crests and troughs in the industry, in better times how many geoscientists are likely to come back and how recoverable are their skills? If you go five years down the track, is their skill base so depleted that it is hard for them to get back?

**Mr Walker**—I personally have a view that this is a fundamentally different cycle. When I first graduated from university there were no jobs. We went to South Africa or we went to Saudi Arabia, or we worked in iron ore or we worked in coal. Those jobs are not there. They are not in South Africa and they are not in Canada—the industry is just not buoyant enough internationally. My view is that you will get fewer people coming into the earth sciences, unless they are environmentally orientated, and you will not see a recovery to the extent that we had in the mid-1990s and late-1990s simply because the ones who were in for that and suffered as a result—that is, they lost their jobs—will tend to stick with their new careers. Sure, there will be a recovery if sentiment substantially changes but I do not believe that it will ever be as rigorous and as comprehensive as it has been in the past. This is the reason we made the submission: there is a sea change and the problem is that people have not recognised that.

**Mr HATTON**—One area where they might be able to do more is through Geoscience Australia, if its capacity was expanded. I am very interested in your arguments about what they could be doing and, of course, the cost in regard to that. You referred to regional aeromagnetics, regional gravity and regional airborne EM. Can you explain a bit more about those things? This goes to the question I asked previously about the shallowness of our knowledge and these new techniques being able to get further down.

**Mr Walker**—We can use our own personal example: Elkedra is a case in point. It acquired data in the Northern Territory at little or no cost and is now in the process of spending almost \$2 million this calendar year in the Northern Territory. I might add that Metex, historically, has relied more on providing its own regional data sets and we have spent an enormous amount of money over the years in conjunction with the major players. We like to think that in some ways our techniques are very innovative. The reason we have suggested things like gravity—which is very expensive—and EM is because we have used them. They help to extend the seeing capacity a lot deeper than what we have at present. The problem is that airborne EM, for example, is costing upwards of \$100 a line kilometre, compared with magnetics, which would only be about \$6 or \$7. They are very expensive data sets.

In the case of regionally acquired data, I again have an example: late last year, the Geological Survey of Western Australia released a 1:250,000 sheet of spot geochemical data. They had systematically gone out there with a helicopter borne program. They made it available to the industry at no cost. Within six months, Metex had spent a quarter of a million dollars on ground-truthing that data. The translation from collecting the data to results is very quick. Elkedra, in the Northern Territory, and we here can turn that data into results very efficiently—much more efficiently, probably, than a lot of other contemporary groups.

The comments about Geoscience Australia and the like are really looking at how it extends its capacity into the expensive area of data generation. Things like the seismic transects in the eastern goldfields are fundamental information gathering tools, and you would not be able to afford them as a junior company. That sort of information in the right hands is very useful. In the Laverton area, for example, we found that, rather than rely on the local geological survey here, or AGSO, to generate the data in a timely manner, it is better to go out and do it yourself and then get on with it. The lead times for getting some of the government supplied data can be reasonably long. That is a problem.

**Mr HATTON**—This may just go to my prejudices, but we might be a lot better off, instead of looking down the tax incentive line, looking at putting more resources into this area—things that companies cannot do as readily in terms of that broad exploration using those techniques.

**Mr Walker**—As far as a junior company is concerned, you are right. The larger groups have capacity to do that. They can generate it themselves. Once you get down to our level, the cost of a gravity survey in the Laverton area might be upwards of \$200,000 and that is a big hit on the sorts of budgets that we have.

**Mr HATTON**—How do you determine what the priorities are? The government might determine that one of the ways it could be most helpful would be to go into this area, but the costs are very high. Are the costs as high as they are because not enough work is done in this area, because you do not have a level of activity that is scaled-up enough?

**Mr Walker**—No. The technology is expensive. For example, airborne gravity is a proprietary tool. It is owned by BHP so it is not available for the industry to use. Yet to go out and do a comparable ground based gravity survey on a 250,000 sheet you are probably looking at over half a million dollars. The problem is that the cheap technology has been used. Airborne magnetics, mapping, going out and collecting soil samples, and geochemistry are all comparatively cheap but they will give you sufficient answers. Once you are starting to look through transported profiles and having to look deeper and the like, that sort of technology is more expensive. That is where I have a slight divergence of opinion from yours because at the end of the day the people best able to generate that data in the first place are the ones who actually have to use it because they are focused on what they need to do.

**CHAIR**—Thanks very much, Mr Walker.

[12.56 p.m.]

**KOONTZ, Mr Douglas Victor, Executive Councillor, Association of Mining and Exploration Companies (Inc)**

**SAVELL, Mr George Arthur, Chief Executive Officer, Association of Mining and Exploration Companies (Inc)**

**CHAIR**—Welcome. Before we proceed to questions, would you like to make a short opening statement?

**Mr Savell**—Yes, we would. Thank you first of all for the opportunity to appear before you today. The mineral exploration industry, as you have probably heard already, has still not recovered from the devastating four-year downturn in expenditure it suffered between 1997 and 2001. While some early signs of potential recovery are now evident in a slight upturn in expenditure and some successful junior resource company floats on the exchange, these events cannot be described as a full recovery.

There are multiple impediments in place which affect resource exploration investment in Australia. No one existing impediment is likely to be judged as significant enough to seriously impede mineral investment. However, collectively, these impediments, which are dealt with in detail in our original submission to the inquiry, are certainly a major disincentive to companies seeking to access Australia as a destination for mineral investment and for companies already operating here.

Some impediments arise from commercial or market driven developments, while others are the result of legislation, government policy initiatives or community inspired requirements. Both the states and the Commonwealth bear some responsibility for some of these impediments to a greater or lesser extent. Some impediments could be removed by positive government action. For example—a point you covered very recently—the risk capital drought experienced by the mineral exploration industry over the past four years could be relieved through the establishment of a taxation effective incentive scheme for individual taxpayers for the prime purpose of mobilising risk capital from those sources.

Other impediments result from legislation which deliver land access problems to industry and inevitably raise compliance costs while reducing the land area to which industry has access. Some impediments result from a conflict between Commonwealth and state legislation, jurisdiction and process. Examples of this are the Environment Protection and Biodiversity Conservation Act 2000, on which I will ask later for your indulgence for Mr Koontz to expand slightly, and the Native Title Act 1993. Duplication of process results from the first act and an unworkable process from the second act.

There is also a serious lack of a seamless formal program to gather geoscientific data in a cooperative way, which would greatly enhance mineral exploration. Geoscience Australia and each state's geological survey, by working in a complementary way within a formal program structure, could deliver improved results in a more cost-effective manner to both the Commonwealth and the states than is possible at the present time.

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One of the issues that must be seriously addressed is the crossjurisdictional problems or impediments which Commonwealth legislation and policy initiatives almost always deliver at the state level where the on the ground effect becomes very evident. There is a consistent failure to track the real effect of legislative provisions and to consider likely outcomes in the commercial sense for those who will be affected before an act is actually promulgated. In this way, the legislative process can in itself become an impediment to mineral investment through a failure to put practical, commercially acceptable practices in place which can be easily complied with by both developers and others in a win-win situation.

There is an increasing and apparent awareness with respect to both the Commonwealth and the Western Australian governments, in particular, of just how serious the recent four-year downturn has been in terms of its future effect on future mineral production. That is evident from this inquiry and also from the Western Australian inquiry being conducted by the Minister for State Development through Mr John Bowler MLA. There have been other inquiries into methods of improving the Western Australian project approval process headed by Dr Michael Keating, a retired Commonwealth Public Service officer. Inquiries have also been held into a means of clearing the huge backlog of mineral title applications largely as a result of a poor interface between the Western Australian Mining Act and the Native Title Act and its processes. So I believe this inquiry will benefit from some of the matters which have been brought forward in those other inquiries that may add to your investigations. AMEC has made comprehensive submissions to all of those and we certainly offer any of that that you would require at any time for your use.

One very deliberate impediment to mineral exploration is currently being put in place in Western Australia by the WA government, which is legislating to make uranium exploration, production of yellowcake and transport of nuclear material illegal in WA, probably through conditions put on mining tenements. We raise that matter because of the likely negative message which is going to be conveyed to international investors. Their question will immediately be 'All right, uranium today; what is it tomorrow?' There are other materials around that probably have properties that are not all that desirable at times in many ways. We see that legislation, if it passes through the state parliament, to be the ultimate impediment to exploration for that resource. We do not believe that the actions here are in the national interest. We have serious concerns, in particular, in regard to greenhouse emissions if the sources of uranium are shortened because there is going to be a growing need in Europe and other places of very heavy industrial development where their only option really is nuclear electricity generation. That is the ultimate greenhouse gas—it doesn't produce any.

One of the biggest problems facing the mineral exploration company since 1997 has been the raising of equity capital to finance exploration. A series of events and competition factors have arisen, not the least of which was the emergence of the IT and biotech industries that were in competition for risk capital, and we suffered from that. Then there was the celebrated dotcom boom, which largely became a crash at some later stage and destroyed a lot of capital in the process. A lot of mum and dad investors who thought they were going to make money finished up not making money at all, and made a loss on their capital.

We look at the taxation incentives offered by the taxation act through agricultural schemes such as olive groves, vineyards, plantation timber and what have you and we agree with previous presenter that we are largely in a position where we would qualify for all of the arrangements if we could get the tax office to agree that we did qualify. That has become a

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major problem. They say we do not. They say, 'Look chaps, these investors are not out there in the field actually exploring for minerals.' I reply, 'I haven't seen anybody planting trees, either.' So we have a bit of a difference of opinion which we cannot progress.

What we think is needed, and we are not focusing on one particular scheme or method, is some sort of a method which will be a catalyst to break this capital drought and get the risk capital providers back into the marketplace. We believe there may be a number of ways of doing that and we would like to explore some of those, perhaps. The Canadian flowthrough share program has been one very high profile issue. We have supported that because we believe that with modifications for Australian conditions and with proper safeguards put in place in our economy it could be a goer. We are prepared to entertain some sort of control in that area. We heard Mr Haase talking about this. We are prepared to put in place controls which will make certain, if I might use the vernacular, that rorts are kept to a minimum. There were some rorts in Canada—there is no risk about that—in the early days. We have produced a large submission and a set of appendices for your information. We will not go any further with our statement, except that Mr Koontz may wish, with your permission, Chair, to comment on the EPBC Act.

**Mr Koontz**—Thank you, Mr Chairman. As Mr Savell stated in his opening address, one of the impediments that has existed for a while, since the introduction of the Environmental Protection and Biodiversity Conservation Act—there has been some disconnect between the state government and the federal government on administrative procedures and cooperation—relates to how that act would apply particularly to exploration projects. One development that has occurred since the submission was put forward in July this year was that the state Minister for the Environment and Heritage advised us that she and her Commonwealth counterpart had now signed a bilateral agreement under the EPBC Act. I believe that that is the second such agreement in the two years since that act was introduced. It is welcome as it provides some framework now for the Commonwealth and the state to try and streamline the processes; instead of an explorer or a mineral developer having to satisfy two processes, there will be greater cooperation between the two.

However, it just provides a framework; there still needs to be considerable work done between the respective agencies to put in place some clear guidelines on referral. For example, out of about 700 projects that have been referred to the Commonwealth government under the EPBC Act about 60 of those have been exploration type referrals. Some of them have been granted large exploration programs offshore, which arguably should require that sort of referral. A lot of advice given to smaller explorers is: when in doubt, refer it. Many of these have been for very small exploration programs which have involved very low levels of ground surface disturbance; therefore, the point of referral having to go through that extra red tape, with delays being caused while there has been a response on those referrals, can be seen as being unwarranted. Hopefully, through some administrative procedures and guidelines there can be greater certainty given in that area.

**CHAIR**—I will open the batting. On page 59 of your submission, under the heading 'Taxation', how important are downstream tax incentives, mining infrastructure assistance and royalty rates to companies' decisions about where to explore?

**Mr Savell**—It is a very broad decision making process. First of all, the main issue is prospectivity; an exploration company will look for a place which is highly prospective and where they will have a good chance of finding something. They will look next at infrastructure

and they will look at the education system and the availability of people who are capable of being employed—as you heard earlier—as geoscientists, metallurgists and computer experts. They look at the state of stability of government generally. There are a lot of countries—for argument's sake, in Africa—where the Australian mining industry will not go because the country risk is just too high. There is an increasing tendency now to adopt country risk as being a fairly important matter in terms of where you decide to explore.

In terms of taxation concessions, I would say they would rank down the scale somewhat. They would come after the real physical issues of availability of educated personnel, ability to supply mine sites and the ability to provide all of the scientific requirements you need for analysis of all of your samples—all the things, in fact, that the Australian industry delivers very well. We have a very highly developed support industry, a lot of it not very far from you in West Perth, where even international results come back for analysis. They would be the things that would motivate explorers if they were coming into the country for the first time.

**Mr TOLLNER**—You raised the issue of land access and on pages 25 to 39 of your submission you suggest that mineral exploration be exempt from the right to negotiate. In the light of your view that the operation of the Native Title Act is socially beneficial would this be a realistic aim? Do you see it that way?

**Mr Savell**—The reason that we put that section in is that it is a long-held belief of AMEC—and we have put this view to successive federal governments, including the last Keating government—that one quick way to unlock mineral investment and to get on with the job on the ground is to allow mineral exploration which is non-ground disturbing to proceed without actually having to be part of the right to negotiate process. Mr Lavarch, who was in the last Keating government, found some favour with that and said he would explore it. Of course, the government did not get re-elected so therefore that idea fell down. There is a lot of logic in allowing that to happen.

Indeed what is happening in Western Australia now is that in a number of agreements which the mining industry is trying to negotiate with Indigenous stakeholders there has been agreement that up to a certain point one need not actually go into the formal process. There has been a lot of work done on this issue and it is a logical thing to do up to ground disturbance. In other words, if we want to fly aeromag or to go in there and take samples in little bags and what have you, that is not going to seriously disturb the land or seriously affect native title. We think that is a way forward. What we are doing at the moment, of course, is negotiating our way around some of the impediments to getting expedited treatment of mining titles at a state government level and I think that will work. We may not need to worry too much about looking at that, which would require probably some legislative process, if we can come to agreement with the Indigenous groups direct.

**Mr TOLLNER**—Have you noticed any changes over the last few years, either positive or negative, in the relationships between employers and traditional owners during their negotiations over land access?

**Mr Savell**—Yes, we have. Over the last year and a half we have noticed quite a rise in goodwill between native title representative bodies—we have always had a good relationship with elders and Indigenous folk direct—and the mining industry and indeed other stakeholders. We do believe that things are improving generally if they continue in the current trend.

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**Mr TOLLNER**—In your submission I notice you make no comment that I have been able to find on the Northern Territory Aboriginal land rights act. Rio Tinto suggested that the costs of access and negotiations for access onto land under that act were relatively high, which flies in the face of what both the Northern and Central Land Councils had to say. They said that costs to mining companies to negotiate land access under the land rights act were minimal. Can you comment on that as a representative body?

**Mr Savell**—It is very difficult because you have to talk about one on one experiences. There will probably be a different answer reached by different mining companies in their approach on certain issues. I cannot comment specifically on anything that Rio Tinto might have given as evidence, or even that the land councils might have given as evidence, but I can tell you this: it is a very significant part of the mineral exploration budget to conduct native title clearances and now there is a connection with cultural heritage issues. Indeed the day rates, the number of people involved, for argument's sake, in clearing cultural heritage is quite substantial. You have to provide the sustenance and other logistical support, including vehicles or whatever, that are required for these sorts of things. I have heard from my own members figures ranging from 15 per cent to 20 per cent of a specific mineral exploration program. If you are conducting \$100,000 worth of work in the ground, or you hope to, you could be up for \$20,000 to get yourself to a point where you can start the program. Your costs are being elevated all of the time. That is the only point I could make; I am not aware of the points you raised.

So it is an expensive process. It is something that the industry has to face up to—and we have been facing up to it—and it is going to go on for a period. Having done all of these exercises, what we really need—and we have been negotiating with the state over this—is a database that works and which allows us to access, for instance, cultural surveys and other information that has been gathered so we are not doing it half a dozen times. At the moment the tendency is that for each new company that comes up and says to a particular group, 'Here we are; we want to explore,' you undertake a new survey. Each company is faced with it. It is a multiplicity of things and you might be doing the same job over and over. We are looking for a bit of rationality in that particular process so that we have good, workable databases—not to access any culturally sensitive material but to know of a place, for argument's sake, that a particular anthropologist or archaeologist undertook some sort of a survey, the date it was done, the type of survey, the results of the survey, who the traditional owners were so we could talk to them if we needed and to access non-sensitive information. That would greatly facilitate the mineral exploration program's approach to their work.

**Mr TOLLNER**—Is that a role for the state or territory government or for the particular land council, or are you just calling for somebody to do that?

**Mr Savell**—We see it as a function of a state or territory government. The reason we say that is not that we believe governments should do everything but that if you were to take, say, the Western Australian experience, where there are five native title representative bodies, you would have five different people to deal with. They may have views on something which mean their programs in their database are a bit different. We might not have that clear approach that means we can rely on the information and that it is all up to date and what have you, so we have put a view to the state government that they should establish a database of that nature and that they should be responsible for it through one of their departments. We have suggested the Department of Indigenous Affairs is the one that ought to do that. We have gained recognition from some government agencies that (a), it needs to be done and (b), that they will consider the

whole exercise and come back to us and say whether or not they are in the position to do it. We will pursue it with the state government in any event.

**Mr HAASE**—I will be brief, because you have covered most of the automatic questions well. I would like to hear your comments about the quality of anthropological information that allows your members to be assured that they are dealing with the right people when it comes to questions of access to land.

**Mr Savell**—That is a difficult one because the anthropologists have to be qualified in a recognised university in their discipline and of course they also have to be acceptable to the Indigenous people if they are going to deal with them on these delicate matters. Basically, yes, we are satisfied that they are competent and they will do the job properly. There is a little bit of a problem at times when a company will pay for something and then cannot get access to the report. That does cause a few problems with some members, but that usually only happens when there is some sensitivity attached to the cultural information.

What we are looking for is a database that is split into two, with a line down the middle. On one side would be a sites register, and that would probably have firewalls in it to stop people accessing culturally sensitive matters; and on the other side would be a generic open file that said certain things happened at certain times, no sites were found and so on. That does not stop you coming back later and doing another search if there were a real necessity for it, but it means that the explorers can go to the second half of the database and say, 'It looks as though there are no problems where our tenements are,' or, if there is a problem, 'Who do we talk to? Yes, they are the people,' and off they go.

**Mr HAASE**—So you are agreeing that some problems associated with the quality of anthropological work would be short-circuited if such a state instrument were to be set up?

**Mr Savell**—That is probably true to say.

**Mr HAASE**—Thank you.

**Mr TICEHURST**—In your opening statement you made a comment about tax benefits being available in agricultural industries. Do you think there is a reason for the mining industry to educate the public better about the opportunities in the resources industry?

**Mr Savell**—That is probably a fair statement, but we are often faced with this and it really depends on how much money you need to spend to educate the public. If I were to say, 'Let's educate the greater metropolitan area of Melbourne,' it would take tens of millions of dollars because you would have to conduct a campaign which would have to be repeated until they were all brainwashed. It is probably an unfortunate term to use. But I think you are right in identifying a need for the industry to better portray itself at the local level. In Western Australia, 15 out of every 1,000 people are directly touched by the mining industry at any given time. Given the turnover of staff in mines over a number of years, it would be very difficult to walk down any street in Perth, knock on a door at random and not find that someone in that family had been, was about to be or is involved in the mining industry. Western Australia also has the greatest number of small resource companies trying to get out there and do something about improving the value for their shareholders or, hopefully, to find a mine.

Quite simply, we do not need to educate the public; we need to give them a means of freeing up the capital. If Telstra was floated, everybody would want a piece of Telstra because it is seen as blue-chip. If something else was said, people would rush in and do that—the incentive being the value of the stock. The incentive for value in the mining industry, in the junior resource companies, is the fact that they are lean, mean, hungry animals, and if they do not go out there and add value to their particular properties they are history. They have to be able to say to a potential investor, ‘We’ve got this great property, we need to spend a lot more money on it, we need another \$250,000.’ The technique there is to find those professional investors—they are not institutions—and have them put their money into the company in the hope that that will bring something to fruition.

They do it at the moment through a system called ‘placements’, which the ASIC people are doing their very best to destroy. What happens in a physical sense is that a company might be trading at 15c a share but a professional investor might say, ‘I want my share allocations—for all the money I am putting in—for 10c a share.’ This way he gives himself breathing space in case there is a bit of a fluctuation. He can normally then go out and make a decision about how the company is going, look at their programs and what is happening with his money. He can say, ‘Hello, I made a bit of a mistake here so I will sell my shares.’ ASIC is wanting to put a false escrow on that kind of exercise to keep a professional investor locked in for 12 months. What is going to happen is that you are not going to be able to get money from those professional investors if you do that because the risk will escalate to the point where they just say, ‘It’s not worthwhile. I’m going to go out and do something else.’ It is not so much a matter of education; it is a matter of, in some cases, regulation swamping us.

**Mr TICEHURST**—How has the slowdown in resource exploration impacted on Aboriginal people and their communities?

**Mr Savell**—It has certainly had an effect, but it has not been measured. I think the numbers give us a real hold on this. The investment in mineral exploration was \$1,148 million in 1997. It dropped away by 47 per cent—it actually topped 50 per cent in some short periods but, on an average, exploration for all minerals dropped 47 per cent—until there was a slight upturn in the last couple of quarters. It is an area where a lot of regional economies were affected because the companies were not operating in those areas and they were not spending money on goods and services—engineering, fuel and whatever else you might like to talk about—in those regions.

Obviously, the Aboriginal people could not get jobs in the exploration industry if there was not anyone exploring—so that is one effect immediately. If they were dealing seriously with a company, they really can be dealing only with producers who had a cash flow, whereas explorers did not have a cash flow and a lot of them put their projects on hold. That was a part of the drop—they did not go out and spend any money. Therefore, it would be safe to assume that, yes, it would have had an effect on Aboriginal communities.

**Mr HATTON**—I figured that, if I mined the GST vein long enough, I would actually hit paydirt and could go home!

**Mr TICEHURST**—It has been good for business, Michael.

**Mr HATTON**—It has. On pages 59 to 63 of your submission, you covered the essential problems that the industry has with the GST. On the bottom of page 61, you said:

Essentially, there remains a considerable amount of uncertainty in the exploration and mining industry as to the application of section 38-325 of the GST legislation which deals with the "Supply of a Going Concern".

There is also some wonderful stuff on 'farmors' and 'farmees' and all the rest of it. The GST was supposed to give us simplicity rather than complexity. But, of course, as in any legal situation, that is not the case. This is primarily a question of what happens when you sell one entity to another. Do you want to give us a brief run-down of just what the core of this is and of the fact that, so far, from the ATO, you have not got any resolution of the problems that you have brought up?

**Mr Savell**—We suspect that we threw the ATO a ball they could not hold; it was too hot. We have a potential problem in the industry which probably would go to the extent of several hundred joint venture agreements, at the very least. I think I am being conservative in that estimate. We have gone through a period where, on the one hand, larger companies have basically sacked their own in-house exploration units and said, 'We'll buy our projects without your help,' and then they have suddenly realised that, if they do not have anybody exploring, they cannot buy projects. So they have gone out and said to the juniors, 'Righto, chaps, we're interested in the ground you have. We think it has some potential. We'll help finance this in a joint venture,' or, on the other hand, a small company, because they cannot finance the costly exploration they must undertake, takes a joint venture to a larger company.

In the process of that agreement, under the GST, you create supply. Once you have created a supply, of course, you raise the liability. We have a list of about nine different sorts of joint venture arrangements and some of them are really complex—you have probably seen some of them. In good faith, we sent them off to the ATO with a letter saying, 'We're really concerned about this. Can you please give us a ruling on what all this means and how it will be applied?' The ATO came back to us and said, 'Yes. We'll get our chaps working on that,' and so they did. A lot of time went by and we phoned them frequently, and finally we got a ruling on one of the issues. Our tax experts looked at it and said, 'Lordy, this doesn't really answer the question.' So we went back to the tax office and said, 'It really doesn't answer the question.' They said, 'We'll have another look at it.' The other look at it, of course, was that they thought it was all a bit too difficult anyway and did not tell us anything.

That means that, because of the documents they have signed, all of our mineral explorers, technically—unless they have some really good lawyers and can get around the issue, but I fail to see how they could do that—are at risk of not being able to get on with their business and to go out and do some exploration. In some instances, so the tax people tell me, you can end up with both parties paying. This is all getting very deep into the complexity of the tax act. I am not a taxation accountant, but the bottom line is that there is a serious problem. We are petrified, quite honestly. If the ATO in their random process say, 'We'll go out and have a look at XYZ mining,' and if they come across a couple of joint ventures and say, 'These things don't comply with the GST act,' it could start from there, and it would just be a flood. I think that the ATO have got to put a bit of a task force on this to sort it out, because the industry lives on joint ventures, especially the smaller resource companies which need certainty in the matter of how it can work. The obvious way around it—and the Commonwealth will never buy this—is to exempt those joint ventures because they drive the eventual export effort through producing mines. It goes back in a very direct line to the idea that one should exempt the export material from GST. You have got to get to the point where you produce the material, and this is really the very first stage of it.

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**Mr HATTON**—It also goes to the core of the structure of the industry and its common practices.

**Mr Savell**—It does.

**Mr HATTON**—If we are looking at impediments, uncertainty in this area is a substantial impediment to going forward.

**Mr Savell**—There can be some very substantial amounts of money involved if you get into a situation where, for argument's sake, the joint venture says, 'XYZ mining will joint venture with ABC mining, and ABC, by spending \$2 million, will gain a 49 per cent share of whatever happens.' What do you do the GST on? The \$2 million? Do you do it while it is happening—at \$½ million a year during the program—or do you do it all up-front? The tax office is very keen on up-front because that means bigger cheques and bigger payments. They are just a couple of instances of what can happen with this problem. I do not imagine when the crunch time comes that any credence can be given to the fact that the tax office did not give us any ruling so we could not give our members any guidance.

**Mr HATTON**—I will do an advertisement here, Chair. In 1985, what was proposed was not the full goods and services tax but a retail sales tax. Treasury put that forward in 1985 because of the time for implementation. They got what they wanted in the end—and that is the full shebang—but, essentially, what we have got is a 1960s tax program where everything has to be bolted down and everything has to have a bit of paperwork. If they had adopted the alternative model of a retail sales tax, it would have only been at the point of final sale that you would have had the imposition of any tax. Therefore, almost all of the problems you have outlined would not exist because you would only be dealing with the sale of the final product. It is because we have a much more complex system that we have much more complex problems. Obviously, one solution is to do a rethink of how this is managed, what impediments there are and what greater costs to industry there are from having this model operating. I have suggested it to them but they have not responded so far. Our great problem is that once something is in, they do not want to change anything, whereas there could be a much simpler way of going about it. That is my own viewpoint.

**Mr Savell**—There are a couple of small points. I think when government put the GST into place, they treated the mining industry in a fair and reasonable manner, but there are high points—these spikes sticking up—where people did not really think about those particular issues. It is the emerging little spikes which are the problem. I believe it is reasonable to deal with them in some manner and get some finality, because the more years that pass, the more problems there are going to be lying around out there for the members. The amounts of money involved would probably put some small companies out of business without any trouble at all.

**Mr HATTON**—Thank you. That little mining exercise was quite profitable for me. There has been a paring away rather than an addition—you have pointed out on pages 50 and 51 the ABS figures that are central to the industry and also the ABARE information. I know that as members of parliament we get to look at a bit of ABARE stuff but, if you had to line up with everyone else and buy all of the stuff, I do not think you would be doing much exploration or other activities. There is a problem in that there has been a change in philosophy that has driven downsizing and a scaling down of the activities in the Bureau of Statistics and in ABARE but, at the same time, people are told, 'If you want the information, you'd better pay for it.' We have

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seen almost all the submissions say that one of the great things the government could do would be to put the data on the table to allow them to go in and spend more money to do further things. Do you want to comment further on what you have argued in here?

**Mr Savell**—We do not resile from anything we have said here because we believe that what you are outlining is what is happening. We believe that, in many cases, downsizing by government—both Commonwealth and state—has gone too far. You are below a critical mass of people to do what you should do under certain acts, in my view. The ABS have provided a salutary lesson in this particular matter. I recently prepared a submission for the state Bowler inquiry, and I quite blithely sought the amount of drilling that had been done, by state, in Australia for mineral exploration, and could not find it. I thought I must be doing something wrong so I rang the ABS people and asked, ‘Where is your normal catalogue?’ I was using an old catalogue which did not come far enough forward. They said, ‘We don’t do that any more.’ I said, ‘That’s tremendous. How do I work out certain things?’ They said, ‘Sorry, it’s not our fault. We were originally funded by the states in part and some other stakeholders’—and this was part of this program—‘but unfortunately funds were withdrawn.’ I was faced with having to cheat a bit and I had to qualify my statements by saying that these were the last available statistics I had used to draw out what I was trying to prove.

I am about to sign a cheque for the study into the cost of land access, which is something we are terribly interested in. Together with the MCA and others, including state governments and the Commonwealth, we have put money in to try to get a definitive figure on the cost of land access in a certain number of scenarios, whether it be native title, private land or what have you. The study is going forward and will be published, hopefully, next March or April and it will be the very first time we will have a definitive figure done by an independent agency on what it really costs to get access to land. I think we are all about to be very surprised by the cost of that. So, yes, I can tell you that the industry is contributing to some of the collection of data because we are currently contributing to some of that collection.

**CHAIR**—Thank you for appearing before us today.

**Proceedings suspended from 1.37 p.m. to 2.02 p.m.**



[2.02 p.m.]

**NEUSS, Mr Ian, Deputy Chairman, Exploration Council, Chamber of Minerals and Energy of Western Australia Inc.**

**SHANAHAN, Mr Tim, Chief Executive, Chamber of Minerals and Energy of Western Australia Inc.**

**WATKINS, Dr Keith, Chairman, Exploration Council, Chamber of Minerals and Energy of Western Australia Inc.**

**CHAIR**—Welcome. Please proceed with a short opening statement.

**Mr Shanahan**—Thank you for this opportunity to address the inquiry today and to follow up on the written submission that the chamber has lodged with you. By way of background, Dr Keith Watkins is Chairman of the chamber's Exploration Council and General Manager, Exploration, of Sons of Gwalia Ltd. Mr Ian Neuss is Deputy Chairman of the chamber's Exploration Council and Managing Director of Outokumpu Mining Australia Pty Ltd. With the committee's indulgence, I would like to spend five minutes giving an overview of our position, then we would be delighted to answer any questions or enter into any discussion that you may wish to have.

The chamber is the peak group representing the mining and energy industry in Western Australia, a role that it has undertaken since 1901. Collectively, the chamber's members account for around 90 per cent of all of minerals production in Western Australia and conduct between 80 per cent and 90 per cent of all minerals exploration in Western Australia. Whilst we in the chamber predominantly represent the major minerals company in the state, our submission and presentation recognise the importance for all companies, regardless of size, of the need for increased exploration. A number of the chamber's recommendations focus on assistance for the smaller exploration companies without necessarily providing benefits directly to our member companies—for example, the flowthrough share scheme, about which I am sure you have heard plenty.

At the outset, I would like to stress that the chamber's view is that, while we have gone into some detail in our submission in relation to specific issues, it is very important that when the committee deliberates on this and recommends a way forward it looks at a package of issues. It is only through an integrated approach encompassing a number of these areas and through an integrated package that has regard for the roles of the Commonwealth and the states, as well as industry, that the issue of exploration will be fixed.

It goes without saying that exploration activity is vitally important to the health of the minerals industry and without substantial exploration future production will be affected and the WA economy will suffer accordingly. Australian mineral exploration expenditure has declined, as I am sure you are well aware, by over 40 per cent since 1997. The chamber's view is that there is a need for government initiatives that will stimulate activity in exploration and eliminate impediments to accessing land for exploration. We believe the Commonwealth needs

to work with the states to develop programs that will benefit exploration and assist in the finding of new mines and deposits.

In our submission we consider five areas where the government can intervene and thereby influence the level of exploration activity. These include impediments to capital raising, access to land, the approvals process, provision of geoscience information and regional development. The chamber believes that the priority areas for government intervention are the introduction of a flow-through share scheme, a 125 per cent taxation credit system for expenditure on exploration, amendment of the Native Title Act to improve agreement making and eliminate the need for costly and damaging litigation, and provision of additional high-quality geoscience information.

In relation to impediments to capital, exploration is an expensive and high-risk activity. Securing investment is consequently a significant issue, especially for small companies. Given the challenges existing for small explorers, the chamber recommends the two measures that I outlined: the introduction of a flow-through share scheme, similar in operation to the Canadian scheme; and a 125 per cent taxation credit system for expenditure on exploration. We believe that both of these schemes would have a positive effect on exploration activity.

Access to land remains an area of significant impediments to exploration activity. As we see it, there are three main impediments: firstly, the native title and heritage processes and the legislation that supports them; secondly, the veto right of freehold landowners, specifically in Western Australia; and, thirdly, the limitations on access to land in national parks and nature reserves. Native title and heritage remain significant impediments to land access. Companies are working within the legislation, but there remain significant issues that must be resolved if native title is to be eliminated as an impediment to exploration. To this end, the Native Title Act needs to be amended to encourage more agreement making and eliminate the need for litigation.

The approvals process is a key area as well. The approvals processes faced by mining companies continue to become more complex, resource intensive and time consuming. Governments need to work with industry to eliminate duplication and streamline processes in order to reduce the amount of time required to gain access to the land. While we acknowledge that the state government is trying to develop more efficient processes, there are industry concerns that the new processes may not result in an improvement. The government needs to ensure that future legislation does not create duplication. We commend the Commonwealth and WA governments on their recent signing of the environmental bilateral agreement under the EPBC legislation, and we think that sort of model is certainly to be commended.

As I said, in the chamber's view there is also a need for additional high-quality geoscience information to stimulate interest in exploration. The information currently produced is of a high quality, but there is not enough of it to stimulate exploration activity, particularly in greenfields areas. Also, because of the direct and significant benefits derived by the Commonwealth from taxation of the mining industry, Geoscience Australia should be encouraged and funded to participate in land based geoscience information development to a greater extent.

We believe that the mining sector is of considerable significance in remote regions. It is the principal driver of growth, a substantial contributor to the development of regional infrastructure and the principal driver of employment—I believe that the resources sector is responsible for one job out of every six in Western Australia. It is a principal driver of

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Indigenous employment—a lot of Indigenous people are in the mining industry—and, linked to that, a principal trainer of Indigenous people as well. The chamber believes that, without the stimulation of a vibrant mining sector, government at all levels will be required to intervene on a more consistent basis to maintain existing activities and services, and this will be an increased impost on government.

The chamber certainly views the work of this committee as very important. Exploration is a key issue for the mining industry and for the chamber. We welcome your focus on this issue and we would be happy to talk with you further about anything you want to raise with us.

**CHAIR**—Thank you. How important are downstream tax incentives, mining infrastructure assistance and royalty rates to junior exploration companies with no income in influencing their decision on where to explore?

**Mr Neuss**—That is why we have considered the tax flow-through scheme, where these junior companies do not have an income and therefore have some tax incentives they can pass on to the investors and the investors can then get the benefits. Because they do not have any income, they are not particularly interested in any tax incentives; they are more interested in a share flow-through scheme.

**CHAIR**—But that is only to encourage them to explore, not necessarily where to explore.

**Mr Neuss**—We have made some comments in our submission that, in areas where there is no exploration, they might get some further incentives by way of a greater percentage through a tax flow-through scheme. You might have it for highly prospective areas, and you might have it at a lower level if people were doing it in greenfields areas. That is what we would envisage.

**Dr Watkins**—The idea is to encourage investment in that particular sector by giving the individual investor an incentive to put their funds in that particular part of the market. The company then would take those funds and invest them in exploration as they saw fit from a prospectivity viewpoint. You could look at further ways of directing that exploration—for example, particularly towards greenfields areas and particularly towards providing encouragement from the provision of geoscience information in that area.

**Mr HAASE**—Our concern surely would be the likelihood for rorting of such a system. We have evidence that the Canadian model demonstrated a degree of inappropriate investment. Governments can hardly be expected to be making decisions about prospectivity of land. It would be difficult for us then to determine exactly where money ought to be spent in order to get a future gain back through taxation. Can you propose some sort of arrangement that would clearly demonstrate to government where slippage would be prevented and the likelihood of major strike improved, and therefore the long-term worth for government to be involved in giving these incentives to investors in the first instance?

**Mr Neuss**—I think you are right in that the first Canadian model was certainly rorted. The second model that is in place now certainly has not been rorted. The state and federal governments have controlled the prospectivity and the amounts that go in by varying the amount of concessions they give for the areas in which the companies are investing. For example, if they are investing in Quebec they will get a bigger incentive than if they were investing in Alberta.

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**Mr HAASE**—This presupposes that government has the data to, in a very practical and technical sense, determine where a high or low level of prospectivity exists. I am suggesting for the sake of the exercise that government does not have this expertise. How could we put a proposition to government that was more likely to guarantee outcomes? I need you to work on that and give us some substantial evidence that a vote for this program would see a great reduction in the slippage that we all fear.

**Mr Neuss**—Certainly you would have to rely on the technical expertise of the various government minerals departments, the government bodies, which would be able to say, based on historical evidence, which are the most prospective areas. Therefore, you could isolate those and say, ‘In those areas, or outside those areas, we will give certain further benefits’, depending on where you saw the priorities. To stimulate something in a high prospective area, you would have it different from a low prospective area and you would not need to give it as much.

**Mr HAASE**—Are you saying that the determination of high or low prospectivity is something that would be readily established by government?

**Mr Neuss**—It is readily established by the technical expertise of the geoscience mineral resources departments.

**Mr HAASE**—Perhaps this would be the role of Geoscience Australia.

**Mr Neuss**—It could be the role of Geoscience Australia, and the state departments as well.

**Mr HAASE**—Much has been given in evidence about how we ought to be supporting increased resources for Geoscience Australia. Perhaps this would be one of the arguments that would justify us considering that additional support. They would perhaps give us the fine data that would make a flow-through share scheme work for government and for the mining industry.

**Mr Neuss**—They would certainly be able to advise, but you would probably need some input from state governments as well, because they have their own technical expertise in different areas. Certainly the regional minerals assessment schemes that have been carried out for different purposes prioritise the areas for a different purpose, but they still show the prospectivity because people are trying to put a value on the minerals in the ground, and they are putting some priority on those different areas.

**Dr Watkins**—If I could add to that and perhaps provide a slightly different view, I am not sure that directing junior companies into particular areas of conventionally perceived prospectivity may be the way to go. I think one of the strengths of the junior exploration sector is that they quite often go into areas that have not been previously regarded as prospective and find deposits in those areas. So I am not sure that it is a particularly productive path to follow to constrain the areas that juniors explore in, if their funding is driven by a particular share scheme. I think the role of Geoscience Australia and the state surveys is to provide more general geological, geophysical and geochemical data sets on which all companies, in particular juniors, perhaps, who do not have a lot of resources, may be able to base their exploration.

**Mr HAASE**—My concern is that in my push for the introduction of such a flow-through share scheme, the retort always is, ‘How do we stop money being spent for the sake of spending’

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the money? How do we enforce satisfactory decisions being made in selecting areas that will give results long term as opposed to simply spending the money?' I want you to give us evidence about that so we can better knock down the standing argument that we will have no control.

**Dr Watkins**—There could be some initial rules set up in administering the scheme, but it is important that there be a review process during the tenure of the scheme to make sure that it is working in the way that it was originally envisaged.

**Mr Shanahan**—The second attempt by the Canadians to put in place a flow-through share scheme has, from what we understand, seen over 90 per cent of the money generated invested in what you would call genuine or legitimate exploration activity. Clearly there is a set of rules and parameters existing in Canada that has minimised significantly the abuse of the system that was a feature of its first manifestation. So clearly it is able to be done, and Canada, we would submit to you, is an example of where it has been achieved successfully. In terms of targeting, the sort of incentivation you might put in place based on the prospectivity—

**Mr HATTON**—Boom, boom—private joke.

**Mr HAASE**—We have been hearing 'incentivation' all day, and here it is again. Excuse our mirth.

**Mr Shanahan**—I hope I have not fallen into some form of bingo!

**Mr Neuss**—Not all the expenditure in Canada—for example, head office expenditure—is eligible. It gets put into drilling and stuff that is going to make a difference. To a certain degree, it is up to the company where they spend it. If there are incentives to spend it in certain areas—to drill, for example—they will certainly drill more.

**Mr Shanahan**—To pick up the second point of focusing it on areas of prospectivity, from the responses that we have given you, whilst there may be some opportunity to focus it in a broad sense, getting down to a really defined level is probably going to be reasonably difficult and perhaps even counterproductive, as Dr Watkins was saying. Exploration is an inherently risky activity. It is, in fact, with that flight of venture capital from other investments in the biotech and dotcom arena—with which the mining exploration companies have been competing for those funds—where we have run into this issue. So whilst I think you can have, if you like, a blunt instrument in terms of helping to direct it into a particular area, we all need to understand that it is an inherently risky activity. The chamber is doing some work with ABARE to link the value of taking that risk into the regeneration of the resource inventory for Australia so that we are replenishing that resource inventory, linking that exploration expenditure to discoveries and the development of those discoveries into production and therefore into the general economic value to Australia and to the regions from that activity. If you do not explore—if you invest in things other than minerals exploration, which has been the experience, perhaps, over the last two years—you are depleting that resource inventory and eventually you will run down the capacity to provide what is the bedrock of the economy here in Western Australia and a very significant contributor to the Australian economy. I think that really just underpins the case for providing some incentives—I had better be careful what I say—from the federal government to encourage greater investment in exploration.

**Mr CAMERON THOMPSON**—In your section on relationships with Aboriginal communities, you are very critical of federal and state governments. I understand some of the frustration you are speaking to in your submission when you talk about the diversion of funds away from communities and into the hands of individuals and groups, for example, and the difficulty of identifying leaders within particular Indigenous communities. I understand that, but when, for example, you say that federal and state governments have undertaken little work in the development of agreements underpinning development, I would ask you, ‘Why should they in that particular case?’ I do not see them becoming involved in trying to work out an agreement between a mining company and the people in other communities. You say, for example, that infrastructure should be the preserve of governments, yet they often figure prominently in the negotiation of project agreements. I remember when the Mayor of Gladstone was jumping up and down and blockading the road because Joh Bjelke-Petersen and the mining company, Comalco, which was what the mayor was really on about, would not give them decent roads and things to allow the development of their town. Now, that is not an Indigenous community.

**Mr Shanahan**—The issue of native title and the relationship with Indigenous groups continues to be a significant issue for the mining industry and I think that perhaps some of the frustration in dealing with those issues has come through in our submission. For most mining companies native title processes are a fact of life. It is 10 years since Mabo. For chamber members, the processes are a significant but normal part of doing business in Western Australia. To put it in context, as we understand it, there is a backlog of around 11,600 mineral tenements within the state system. Clearly something is not operating correctly for there to be that degree of backlog, and we would submit that it is a frustration that is shared by the mining companies and the Indigenous people and their representative bodies.

As I have said, mining companies have had to put significant resources into dealing with this issue. By and large, they have. We are dealing with representative bodies which have limitations on their resources and the chamber has made representations previously to both arms of government to provide additional resources to those representative bodies so that there can be an ongoing exchange and progression of these issues. It was pleasing to see the state government recently announce another 11 positions in the rep bodies in Western Australia to progress some of these issues.

But it is what I would describe as an intractable issue. There is this huge number of tenements tied up in the backlog. A huge amount of effort goes into progressing these issues and they go very slowly. The chamber’s view is that where agreement can be reached, it is preferable to take that course of action than to go down any sort of litigation or adversarial process. But even to get agreement is still a very lengthy process. Given what I said before and what was in the chamber’s submission about its contribution to regional development, I see exploration and mining activity as a significant employer and prospective business partner for a lot of Indigenous businesses. I think there is a genuine and legitimate role for governments, both federal and state, to encourage those arrangements to be put in place so that economic activity can take place and the benefits can flow.

As you point out, there are plenty of examples where governments have taken that view and encouraged those sorts of agreements and those sorts of benefits have flowed into regional economies. Specifically, we have put in our submission that to address some of these issues ultimately you will probably need to make some amendments to the native title legislation. There is a process at the state government level—which is related to some state mining act

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amendments and some heritage template negotiations—to address the current backlog. All of that is very complex and particularly intense, and I think there is genuinely some question as to ultimately how much of the backlog will be freed up as a result of that and over what time frame. This is a very large area of concern and, as I said earlier, it is not one that will be solved by single initiatives; it has to be taken across the whole of the area.

**Mr CAMERON THOMPSON**—Are you submitting to this committee that the federal and state governments do not fulfil their social welfare and infrastructure responsibilities? Is it your view that the governments are not fulfilling their social responsibilities to Aboriginal communities or providing sufficient infrastructure to them?

**Mr Shanahan**—The mining industry is a very significant contributor to the social infrastructure in regional areas and, on an ongoing basis, contributes to education, health and regional infrastructure. It has developed relationships with Indigenous people to facilitate their training beyond the numeracy and literacy standards the state government is able to put in place. I think the mining industry does recognise that it has some responsibility in those areas and in a lot of cases is going, the chamber would argue, above and beyond that. I think we have seen, though, over the last 10 years, a flight of resources by government from regional Australia and a diminution in the population, which is there for all to see. There has been other significant private sector withdrawal from regional areas as well.

I think the mining industry, because it has its operations in those areas, is saying, ‘Yes, we have a responsibility, but it’s not all on our shoulders. There is still clearly a responsibility for the state and the Commonwealth to provide social and physical infrastructure to support regional communities.’ Just because you happen to be the biggest industry in the area, all of the burden should not rest on you. We are saying that there has been a withdrawal of services in some of those areas and that we would like to see state and federal governments shoulder some of that burden again.

**Mr CAMERON THOMPSON**—But that comment you made was in relation to Aboriginal communities. If you are saying that it is equally shared in many of the other regional areas, I would tend to agree with you, but I suppose I got my back up a bit with that kind of a comment—you know, that we are not shouldering our social welfare and infrastructure responsibilities for Indigenous communities.

**Mr Shanahan**—I think mining companies find difficulty finding Aboriginal people who meet the literacy and numeracy standards required to work on a mine site. In certain areas, a lot of companies are putting in remedial programs to bring Indigenous people from those areas up to those standards. I think that speaks for itself.

**Mr HATTON**—I have what are maybe some fundamental questions. You believe in free market economies, I imagine. And, to go with free market economies, I guess you would have an acceptance that there has to be some regulation and some taxation. What is your view with regard to private research and development activity within Australia and on the fact that, although the government share is very high, there is a critical problem with a lack of a sufficiently high percentage of funds put in by private industry into research and development?

**Mr Shanahan**—I do not have all of those figures at my fingertips but, as I understand it, in the resources sector there is a far more significant investment in research and development by

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private industry than by government. That probably goes to the competitive nature of the R&D that is conducted by the minerals and energy sector as opposed to some of the precompetitive work that is done in the health and other areas which can be shared and is appropriately funded through government. We would say that, yes, there should be more investment in research and development, particularly on the exploration side of things. Look at the CSIRO work being done on the glass earth. A lot of the ore bodies are going to be under cover, so we need to get smarter about finding them. It is absolutely imperative that we do that with the latest technology and that we have an R&D program that supports that. As I say, I do not have all of the figures in front of me, but my understanding is that industry in the mining sector is probably pulling a fair degree of weight in that compared to other sectors, but that does not mean that more could not be done.

**Dr Watkins**—In support of that—again, I do not have the numbers, and it is difficult to compare the mining and exploration industry with other industries when you do not have the numbers—anecdotally there is a significant amount of money being spent on R&D in both the exploration and the general mining area, particularly focused on new technologies that can be used in exploration to find the next generation of ore bodies. Australia is a mature exploration province in a global sense, and one of the ways we can take the past discovery success forward is by developing new technologies.

A lot of companies are very interested in doing that and we support it. We put money into collaborative research programs which are carried out by organisations like the CSIRO and others which bring together researchers from disparate institutions, universities and so on to conduct that research, which is funded mainly by industry. However, having said that, there is still a role to keep providing high quality base data that companies can utilise in their exploration programs. This is particularly a role for state and Commonwealth geological survey organisations. It is not research per se but the provision of baseline data which can be used in the exploration process.

**Mr HATTON**—You are asking for not just more data but a burst of free data to be available to the mining sector—from both Geoscience Australia and the Geological Survey of Western Australia. What is the significance of that being free? Most of the companies you are representing make profits—otherwise they would not be around and be in business. They would range from those that are smaller and capitalising under \$200 million to the \$1 billion-plus ones. They have to pay out for certain things. Why should this particular area be cost free?

**Dr Watkins**—While companies make profits, they also pay taxes and royalties.

**Mr HATTON**—A lot less than they used to. I will come to that.

**Dr Watkins**—That generates significant income for the state, and we would like to see some of that income ploughed back into generating more information that we can use to keep that process going—discovering more ore bodies that can be developed.

**Mr HATTON**—A hammer has been put on federal government departments. We have seen that in previous evidence. They are expected to get more out of what they have got—to do more with less—and to commercialise the data they have. That applies to ABS, ABARE and Geoscience Australia. I imagine that has been a disincentive for companies to take up some of



that work and it is a core part of why not only you but also the others have been arguing that more of that should be provided free.

**Mr Neuss**—First of all, to stimulate exploration you are targeting the smaller resourced companies, which have to raise their equity on the equity market. They are the ones looking at high risk capital and they are probably never, ever going to make a profit—probably more than likely they will go out of business, but that is the nature of the game. It is high risk, high return. They have a fairly small budget, so you are trying to stimulate as many of them as possible to come into Australia or whatever region you pick. If you can provide more and more data that they can use or that people like geoscientists who have worked for large companies can employ, then from the cheap data they can stimulate ideas from their own research and then try to sell that to the larger companies or to the small companies and get funding for that and take it away. Then the state will get a return. By making it cheaper you are opening up the avenue to more people and more stimulation.

**Mr HATTON**—I can see that point and I have argued it in previous questioning. The point I want to get to here is: how much does government have to do and how much does private industry have to do? It is the fashion, I think, and the argument put here that governments should front up and provide stuff free. Private industry like to have a series of reasons why they should go in and invest, rather than simply saying that they want to do it because they are interested in being mining companies and they are interested in going in and exploring and putting money into R&D in order to turn a decent profit at the end of the thing. With regard to company tax rates, a little while ago it was 39 per cent.

**CHAIR**—Thirty per cent.

**Mr HATTON**—It was 39 per cent.

**CHAIR**—Under the previous government.

**Mr HATTON**—It went to 36 per cent. I remember it was 47 per cent under a previous government before that. We brought it down from 47 per cent to 39 per cent, then down to 36 per cent, and then we put it back up to 39 per cent again. We have now dropped from that 39 per cent to 30 per cent; where is the quid pro quo? You have just taken that and said, ‘Okay, we have argued for that for a long time.’ If any of your constituent organisations said, ‘We’ve got a quarter less income than we had previously,’ would you expect them to go out and say to their clients, ‘Give us more as a result of you having a quarter less income’? It was just a case of ‘Let’s take the fact that that tax has been knocked down’. Given the amount of money that is involved, you could have expected that that should have been enough incentive for mining companies and others to do just about everything they needed to do and to front up to Geoscience Australia and pay their money on the line for the data that they actually needed.

**Mr Shanahan**—Certainly at the time of the reduction of the corporate tax rate there was a trade-off. The trade-off in the mining industry was in relation to accelerated depreciation, so there was at the time a quid pro quo. I would like to put the proposition that, given that the mineral resources in Australia belong to the Crown, the provision of high quality geoscience information and the cost of data transfer is in fact an investment by the Crown—that is, the government—in exploitation of that resource on behalf of the people of Australia. So, yes, the mining company will turn a profit; that is the system we operate under. However, regarding the

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natural resources that Australia has been endowed with, this is a system whereby the government can encourage the development of that resource through the private enterprise system and recoup royalties and taxes from that activity. Without going once again over all of the economic benefits of the mining and resources sector—I will take that as read—that is the government's investment in that return.

**Mr Neuss**—It still comes back to the point that large mining companies do a lot of research, spend a lot of money on research and development, and pay their taxes. We are trying to stimulate exploration, and that is a different segment of the market that we are trying to stimulate.

**Mr HATTON**—I understand that. We had evidence from Mr Walker of Metex, arguing that there has effectively been a sea change in terms of ownership. Because the dollar has been so low, the North Americans and the South Africans have walked into Australia and picked up a lot of our companies. There has also been a sea change in terms of the willingness of those larger companies to actually put their money into research and development, exploration and discovery. They have used the smaller companies on a leash: they had them go and do the exploratory work they used to do in-house. Is Mr Walker right in saying that there has been a major structural change and that this has led to a series of things that make it difficult for us, because it is a lot easier to sit back and exploit the brown resources which are there rather than go and do the thing that some of your members have argued for?

**Dr Watkins**—There has certainly been a structural change in the industry with a lot of merger and acquisition activity driven by the North Americans and South Africans. That has also changed the way that exploration is done. There has been a slight reduction in exploration expenditure as a result of those mergers, because one of the reasons you merge companies is to get cost benefits, and exploration tends to be one of the things that is rationalised in that process.

However, I think some of the larger companies have recently been increasing their exploration budgets again, particularly the North Americans and South Africans, as they take over areas in Australia which they perceive to be highly prospective and which they think have been underexplored in the past. They are putting more money into that. One good example at the moment is that Goldfields are spending a lot of money in the Kambalda-St Ives area, where in the past Western Mining had not spent quite so much, because they perceive more prospectivity than perhaps Western Mining did.

**Mr HATTON**—I will finish on this matter because the chair has indicated that we need to speed up a bit. In the evidence Mr Walker gave, he said BHP Billiton has a pretty advanced capacity for gravity resonance, or magnetic resonance, and he argued that there are very high costs that he thought the government should take up because it was BHP's technology. Are there any examples, or do you think there should be, where we could get some economies of scale or some agreement with BHP to actually spread that technology more broadly, given that so much of the surface stuff as now gone and we have to go a lot deeper? Has there been any discussion along that line?

**Dr Watkins**—You are talking about the Falcon technology, which is an airborne gravity survey system. At the moment that is a BHP proprietary technology: they are spinning it out into a small company called Gravity Capital, which is raising the money on the share market to

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fund its activities. The way they operate is they enter partnerships with other companies to survey their areas and if they find any ore deposits as a result of that survey then BHP gets an interest in that discovery. While that is attractive to a lot of the smaller companies, because they have someone come along and apply brand new technology to their areas, it is not so attractive to the larger, more established companies who may not want to share any discoveries. Our larger companies are quite interested in simply being able to purchase the capacity of that survey system to survey their areas and then use the results to target their own exploration rather than sharing any equity in a discovery.

**Mr Neuss**—But certainly the CSIRO and research organisations that do develop new technology license it or enter into cooperative research agreements that are being used by companies to the advantage of companies. That is a very good application of the research and development skills, that, by funding things like the CSIRO or Geoscience Australia or the surveys, they are able to do that and therefore sell it or get some return on it through making it cheap.

**Mr TICEHURST**—Have you noticed any changes over the last few years in the relationships between explorers and traditional owners in negotiations on land access?

**Mr Shanahan**—As I said in answer to a previous question, the vast majority of companies view that as a normal part of their business now. They see having those relationships on an ongoing basis as a very important part of their assets, their portfolios. They recognise that they need to have those relationships and they work hard to forge them and to keep them. I would say that over the last 10 years, and particularly over the last five years, there has been a major recognition of that within the way that companies do business.

**Mr Neuss**—I would agree thoroughly with that because there is much greater dialogue and there are many more people in the companies that are developing long-term relationships with indigenous people and trying to work with them.

**Mr TICEHURST**—Does the chamber undertake any education of the community in relation to the resources industry?

**Mr Shanahan**—Yes, we operate an education program: we had 35,000 school kids through that last year. We take tour groups of politicians, media representatives and other community leaders out to mine sites. We run various publications and other communications. So we have quite a significant operation in that regard.

**CHAIR**—I thank you for your evidence today.

[2.50 p.m.]

**De SOYZA, Ms Anne, Chief Executive Officer, Office of Native Title, Department of Premier and Cabinet**

**DONALDSON, Dr Michael Jon, Acting Director, Geological Survey of Western Australia, Department of Mineral and Petroleum Resources**

**FONG, Mr Neil Andrew, Acting Assistant Director, Heritage and Culture, Department of Indigenous Affairs**

**KENDAL, Mr James Anthony, General Manager, Strategic Planning, Department of Mineral and Petroleum Resources**

**LAYMAN, Mr Bruce Dean, Acting Assistant Director, Economic and Revenue Policy, Department of Treasury and Finance**

**SCHERINI, Mr Alexander, Assistant Director, Intergovernmental Relations, Department of Treasury and Finance**

**CHAIR**—I welcome representatives of the Western Australian government. I invite you to make a short opening statement.

**Mr Kendal**—The Department of Mineral and Petroleum Resources is a department within the portfolio of the Minister for State Development, who responded to your invitation and made the submission on behalf of the state. I would like to make a few introductory remarks about the state's submission and then ask each of my colleagues to also make a few introductory remarks, if that is acceptable to you.

**CHAIR**—Yes.

**Mr Kendal**—Our submission highlights the strategic nature of Australia's mineral and petroleum reserves and the special nature of exploration in discovering new reserves. It is because of the importance of the mineral and petroleum resources industries to the Australian economy that there is a need to ensure that the reserves relating to future development are available in the national interest. At the present time, there is essentially no national energy and no national resources policy on which to assess whether any impediments to exploration are important to future investment in Australia's exploration industry. The submission points out that the Commonwealth has the constitutional powers and the physical measures to provide incentives and disincentives to create a favourable investment environment for exploration activity. I would like to now hand over to Anne De Soyza to talk specifically about the Office of Native Title.

**Ms De Soyza**—Recommendation 4.2 in the Western Australian government's submission raised a couple of matters that I would like to draw your attention to. One was the resources that are made available—the level of funding in particular—to native title representative bodies. I would like to say, by way of general comment, that the Commonwealth Attorney-General has

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clearly made statements on previous occasions that the Commonwealth recognises the system of agencies established under the act and that the system of agencies is an interdependent one so that the functions of each are necessarily dependent on the others for the group to function properly. That system includes the Federal Court, the National Native Title Tribunal and native title representative bodies, or the land councils, that operate under the Native Title Act.

Two reports commissioned by the Commonwealth government—in 1995 and in 1998—recognised that native title rep bodies are the linchpins in the processes set up under the Native Title Act. However, notwithstanding this pivotal role, there has been no increase in operational funding to representative bodies since 1995. Conversely, there have been increases in funding to the national Native Title Tribunal, the Federal Court and the Attorney-General's Department over the last few years. The state government has recently moved to provide funding to rep bodies to ensure that they have some capacity to process future acts, particularly mining title applications. An amount of approximately \$1.8 million will be provided over a four-year period to each of the rep bodies in Western Australia. This is additional funding or top-up funding that the state government has been moved to provide to rep bodies because of the issue of inadequate funding being provided by the Commonwealth government to what is essentially an agency established under the Commonwealth Native Title Act.

Another related issue—again one that is mentioned in our submission—is how native title might be managed after a determination of native title has been achieved. In Western Australia there have been seven determinations recognising native title, which cover a substantial area of land. The Native Title Act requires that, once native title is determined, it must be managed by a body corporate—these are more commonly called 'prescribed bodies corporate'. These bodies corporate are expected to handle the processing of future act notices and to represent the interests of native title holders in negotiations with governments and third parties over land use. Yet there is no funding—not even seed funding to purchase a telephone, let alone to buy the sort of equipment and expertise that it takes to negotiate a land access agreement.

The burden of providing assistance to prescribed bodies corporate may fall on native title representative bodies. However, as I have just mentioned, they are already not funded sufficiently to undertake their statutory functions, let alone to take on additional roles such as assisting prescribed bodies corporate after a determination of native title. The Commonwealth Attorney-General's Department is currently reviewing the total funding provided to the native title system with a view to possibly reallocating these resources between the agencies concerned. This could be an ideal opportunity for the Commonwealth to address the issues of funding for native title representative bodies and for prescribed bodies corporate. More fundamentally, the Commonwealth could also consider whether it is in fact desirable or even workable to create a whole new level of bureaucracy involving the establishment of scores of small corporations which are charged with very complex tasks, instead of using what is already in place in the representative bodies system.

I have some comments to make about the heritage protection working group and the development of template agreements in Western Australia. I heard Mr Shanahan mention this process. This is a process that the state government, through my office, has undertaken in order to provide some assistance in marrying up compliance with the Aboriginal Heritage Act and the processes under the Native Title Act. I will leave my comments about that, because there is quite a lot to say about it and I am aware of the time.

**Mr Fong**—Unfortunately, a lot of what Anne is talking about is very similar to what is happening in our department. But, as a general overview: the department considers that, whilst there have been considerable improvements within the industry, it is still felt that companies tend to concentrate on negative aspects of the need to consult with Aboriginal communities and compliance with the state Aboriginal Heritage Act. It is considered that there should be more focus on a positive consultation process and the protection of heritage, cultural and common-law rights of Aboriginal people. It was mentioned earlier that access to Indigenous land is seen as an impediment. However, it is considered that it is a result of resource industries at times failing to properly engage with the occupants or the people responsible for the lands. Whilst there are a number of creative partnerships occurring in this state, we think they should be promoted as an example to prospective developers throughout the nation.

Going back to what Anne indicated, we consider that the industry needs to tighten its code of practice and ensure agreed standards are met and sustained. Also, instead of looking at access to land as an impediment, it should be seen as an opportunity to develop mutually beneficial partnerships. For example, the state sustainability strategy highlights a significant constraint to achieving sustainability with the Indigenous community as being an inability to tap groundswell movement within Western Australian Aboriginal communities to manage and maintain Aboriginal cultural heritage, to provide employment and to protect and conserve Indigenous knowledge. We consider that this could be an opportunity for industry to look at partnerships and contributions to sustainability of Aboriginal communities and promoting the industry through the provision of training.

**Mr Kendal**—Is this meeting your timetable, or should we be a little bit briefer than we are?

**CHAIR**—You suffer the other end!

**Dr Donaldson**—I will take the cue and be very brief. Our submission highlights the importance of the mineral and petroleum resources industries to the Australian economy and our standard of living. To continue that standard of living, we have to continue a very high level of mineral and petroleum exploration. As a global industry, the Australian exploration industry competes with many other resource rich countries around the world for the exploration investment dollar. To attract that money, we really have to have high-quality, pre-competitive geoscience information available at a very cheap rate or for free. I know there has been some discussion about that in earlier presentations. That is very important, and we can elaborate on that. It is one of the key things that we need to get our prospectivity over to the rest of the world to attract that dollar.

This is an area the Commonwealth can greatly assist in by increasing funding of Geoscience Australia, in particular for their regional geophysical surveys, including the detailed aeromagnetics, gravity and electromagnetic programs. We have heard about that from several of the other witnesses here today. Australia is rapidly falling behind many other countries in this field. Geoscience Australia has the experience and the expertise to carry out these regional surveys. The technology required is already in place and could be put into immediate practice with some increased Commonwealth funding.

**Mr Scherini**—I wanted to make some comments about the Commonwealth-state financial relationship. If you look at the aggregate picture, Western Australia contributes around \$3 billion more in taxes and other revenues to the Commonwealth than it gets back through grants

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and other Commonwealth spending—which gives you some idea of the importance of economic development in Western Australia to the nation as a whole. So there are concerns about the adequacy of Commonwealth funding to Western Australia. More particularly, there are concerns about the workings of the Commonwealth Grants Commission process which is used to allocate GST revenues between the states.

We believe the Grants Commission process generates significant fiscal disincentives for Western Australia to fund development activities. We think that has been recognised quite clearly in the recent Garnaut-FitzGerald report, the *Review of Commonwealth-State Funding*. If the government increased funding for exploration or remote infrastructure then you might expect that the state would eventually reap the rewards by increased royalties and taxes from increased mineral production. However, in practice the Commonwealth Grants Commission equalises away to other states 90 per cent of the revenue benefits by reducing Western Australia's share of GST grants. On the other side of the ledger, the Grants Commission does not really do a very good job in recognising the costs faced by Western Australia in providing social and economic services. There is no allowance by the Grants Commission for industry assistance other than for regulation, training and research in the public interest.

Another more difficult problem with the Grants Commission's methods is that the cost allowances in the formula are usually based on general indicators of spending requirements. Those allowances do not really change when states undertake additional investment to improve their economies. On the other hand, the Grants Commission process redistributes state revenues generated by those investments. That asymmetry in the Grants Commission process generates a disincentive for states, because their costs are not recognised by the process but their revenues are equalised away. We are discussing those issues with the Grants Commission in the context of their comprehensive review of their methods, which is due to report in February 2004. However, we suspect that broader reform of those arrangements might be needed to remove the current disincentives.

**CHAIR**—Thank you for that.

**Mr Kendal**—We are available for any questions. We are only able to answer to the submission. They are our instructions. If you or any of the members ask questions about the submission, could you indicate which part of the submission you are talking about, if possible?

**Mr HATTON**—It is interesting to see that vertical fiscal imbalance has not gone out of favour. However, I am not going to take it up today.

**CHAIR**—He was not going to bite on that one.

**Mr HATTON**—Mr Donaldson, regarding your area of interest, I quote from page 95:

However, federal funding for pre-competitive data via Geoscience Australia has been severely reduced over many years despite clear evidence that the growth of the exploration sector in the past shows a strong correlation with the Australian Bureau of Mineral Resources' (the original form of Geoscience Australia) programs to provide geological and geophysical maps across Australia.

You go on to talk about the Fardon report and what we need to do in that area. Can you outline in a bit more depth how significant you think it is to get Geoscience Australia and the state geological survey operating as they did in the past?

**Dr Donaldson**—Geoscience Australia, in particular, has this expertise in regional surveys. They have carried out that role for many years. We still carry out some to our own ability within the state surveys, usually in collaboration with Geoscience Australia. In Western Australia we have just completed a survey, costing in the order of \$1 million, that we had contracted through Geoscience Australia, using their expertise, their contracting and all those sort of things. Left to our own resources, we would probably take 50 years to complete the coverage of our state at this rate. We really rely on some Commonwealth input to help us do that in a much more timely fashion. We have heard about the Falcon technologies some of the other people talked about. That is a significant thing, but more basic data, especially aeromagnetic coverage at a suitable density of readings to make it useful for mineral exploration, is really beyond the capacity of the state surveys. With the economies of scale that can be done on a truly national approach, we could have aircraft in the air all the time. Geoscience Australia used to have those aircraft, but that funding has now been withdrawn.

**Mr HATTON**—How significant is the amount of funding that has been withdrawn?

**Dr Donaldson**—I do not know the dollar figure, but we are talking about \$10 million a year or something like that just to do the aeromagnetic coverage.

**Mr HATTON**—We have seen the CSIRO whittled away, with more than 1,000 positions going there. The capacity there is reduced. At the same time, CRCs have become more important. We have seen a rolling series, because they run on a seven-year time frame. There has been rejigging; some have gone by the wayside and others have come through. What is the significance of the work done by the CRCs in the mining area in Western Australia, and how much does that feed into the database?

**Dr Donaldson**—It is very significant, but it is at the front end of the pipeline. These are the organisations that come up with new models, test new scientific theories, develop new technologies and that sort of thing. That comes early on in the system, and we are talking about the applied aspects of that with Geoscience Australia. We work closely with several CRCs as a state survey, as do all the other state surveys and Geoscience Australia. They are a very important area for getting funding into the geoscience areas; there is no doubt about that. They do not have the capacity to do the general baseline studies such as airborne geophysical surveys.

**Mr HATTON**—You argue that the perception of prospectivity is very important in pulling prospectors into Australia. I think almost everyone who has given evidence has indicated that they do not think Australia is prospective enough. So we need to really use these facilities to sell Australia as a place to come to do some work. Now that we have entered the Internet age and because of the costs involved with your geophysical survey and the costs that should be there for Geoscience Australia, how much more capable are you now of not just gathering but disseminating the information than you were, say, five or 10 years ago?

**Dr Donaldson**—It is obviously much quicker to get the information out. If I can go back to a question you had for some of the earlier witnesses—why is it important to get this information out free; why shouldn't the companies pay for it? The reason we are doing this sort of work is to encourage people to come in. To then charge a hefty entry fee for basic data is a disincentive; it clearly is. What we really want is more and more people to use the data that we can provide. If the amount of data is just too big physically to put out on the Internet, we can at least get the information out there to say that it is available from us—even if we have to post it. If I can just

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follow that line again: the people who could pay for the data, the big companies making a profit, are only some of the people we want to use it. We want all the other people who are not making a profit, who are not paying taxes, who do not have the money to pay for that precompetitive data, to be able to use it. We would like everyone who is interested in this business, those who are even thinking of investing a dollar in exploration, to get that information. We want that information out there. One aeromagnetic survey of an area of 10,000 square kilometres might cost half a million dollars, and there might be 50 companies who want it. If we charge them something like \$100,000 each, they are not going to buy it. We want them to have it for nothing so that they can make use of it.

**Mr HATTON**—This actually turns things on their head. It is cheaper to do it now than it was before. Over a number of years now we have seen the funding and the capacity being ripped away. Are you recommending to the committee that we recommend to the government, firstly, that they put it back; and, secondly, that it is fundamentally important that what has been happening with ABS and ABARE gets turned around—that this is a way to actually encourage investment and to encourage an expansion of the tax base?

**Dr Donaldson**—Certainly, the figures that Geoscience Australia put out last year pointed out that, for every dollar that the governments—state and federal—spent on this precompetitive exploration data, \$5.60 was spent by companies on exploration and \$360-odd was generated in mineral exports in the year 2000. The figures also pointed out that, for every dollar of government money spent, \$11.70 was returned in taxation and \$8 returned in royalties.

**Mr HATTON**—Thank you. I rest my case in regard to that. My final comment is to thank Dr Gallop for having underlined—as I pointed to in earlier questions today—the importance of Western Australia's critical infrastructure and for having argued for the return of a couple of vessels to protect the assets at Karratha. I think that is an important step for the future, one that the Western Australian government is obviously aware of and thinking about but one that will have to be integrated into the whole way we work on and think about the assets we have.

**CHAIR**—Some things never change, no matter who is premier!

**Mr TICEHURST**—On page 83 of the submission, you say:

The current Government has indicated that it will not attempt to develop State alternative native title regimes as was attempted by the previous Government.

Why the changed approach?

**Ms De Soyza**—I think I could answer that question. I might start by recounting the fortunes of the state of Queensland in its attempt to set up an alternative regime just recently, which was unsuccessful. Certainly large parts of that regime were invalidated, effectively, by a Federal Court decision. I think the current government has decided that it is more worthwhile to put effort into the sorts of activities that we are focusing on, which is resolving native title determinations, looking for opportunities to resolve them expeditiously and looking for ways to make the future act regime work more efficiently. It is also about marrying up the procedural rights of native title holders in the process. So the government has decided, I guess, that is a much more worthwhile endeavour at this point in time rather than putting effort into developing an alternative state regime, given that the Northern Territory and Queensland have put

considerable effort into attempting to develop alternative regimes. They have come to grief in recent times and, as the submission mentions, the previous state government also put a lot of effort into attempting to develop an alternative state scheme, and that also was unsuccessful.

**Mr TICEHURST**—Would it not be better to just have some amendments to the federal Native Title Act and not have state ones at all?

**Ms De Soyza**—The logic in the federal act enabling states to consider and put in place alternative state regime subject to the approval of the Commonwealth Attorney-General in the Commonwealth parliament was that states should be able to manufacture their own systems that are workable in their own environment, subject to their meeting certain requirements in the Commonwealth act. I do not know that amending the Commonwealth act would address the aspiration that is encapsulated in the Native Title Act that states have the ability to set up their own regimes—that is, that Commonwealth amendments cannot possibly make sure that state regimes are tailored for the particular conditions that prevail.

**Mr TICEHURST**—We have got some pretty good Western Australian federal members.

**Mr CAMERON THOMPSON**—Mr Kendal, you have been here for a lot of the day and I am sure you have probably taken in some of the different exchanges that have gone on. Taking note of this move towards uniformity with a proposed national native title tribunal, I see that in Mr Brown's covering letter for his submission he said:

One of the major impediments I see at present is the lack of a national energy/national resources policy on which to assess the need for investment in strategic resources for the future of Australia's economic development.

This morning I asked questions about why all of our pipelines go in skew-whiff directions; they have gone to great lengths to avoid crossing over state boundaries. This is all largely the result of state jealousies and the states' perceived need to develop their own resources rather than, for example, developing a nearby resource that happens to be on the wrong side of a state boundary. In relation to those pipelines and that network, given the large resources in the north-west and that the area where people will use them is in the south-east, and given that we do not have a trunkline system that connects the two and facilitates the development of remote areas, wouldn't we better off with some kind of coordinating mechanism to ensure that these things work in a complementary fashion, in some kind of national coordinated approach rather than the individual approaches of the states in relation to pipeline development, because they go all over the place?

**Mr Kendal**—I have a lot of interest in some of the things you are talking about, but I do not believe this is any part of the submission of the state government.

**CHAIR**—Nor with the tax arrangements either, but you have put them in. I guess it is a logical question.

**Mr CAMERON THOMPSON**—It is here in Clive Brown's letter.

**Mr Kendal**—The answer to the question is that we believe there are a lot of things, like the sorts of things you are talking about—such as the proposed Shell takeover of Woodside—where these sorts of issues come up, and there is no national energy policy. As you pointed out earlier

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this morning, Mr Thompson, and the state pointed out to the federal Treasurer in the proposed takeover of Woodside by Shell, the eastern states are going to run out of gas in the near future and there is a lot of gas on this side of Australia. These sorts of things need to be looked at in the national interest. Really, that is the state's position.

We have a lot of gas. We are happy to share that and to sell it to people. We are happy to have people come and explore for it, develop it and increase the national wealth and the state's wealth. Whether that requires some coordination between the states and the Commonwealth to have corridors and so on for pipelines to go between states and everything else is, I think, a long way down the chain. You are drilling down a long way from starting with a national energy policy and working that out first; the pipelines and so on will follow.

**Mr CAMERON THOMPSON**—If you were putting to the Treasurer that the Eastern States were going to run out of gas in that time, what were you trying to say to him? Were you trying to say to him that we needed a policy that would brought that gas to this place?

**Mr Kendal**—No; we were saying that you need a policy in order to be able to make some decisions about whether or not you should allow a multinational company to take over Woodside and whether that is really in the national interest. If that is the only strategic asset that has been developed in terms of large gas reserves in the state, then should that be allowed to be taken over and managed by someone who has interests in many other places around the world when we may need that on the other side of Australia? That is really what we were saying.

**Mr CAMERON THOMPSON**—I would like to ask a question on another issue. With regard to native title issues, which were covered quite a bit in your submission, we have had complaints from the Chamber of Minerals and Energy of Western Australia in their submission about how they cannot identify leaders in communities. They say they are worried that they see money that they provide to the communities going out of them and winding up in the hands of individuals and other groups. Yet at the same time, for example, when we were in Darwin taking evidence up there, we had the Northern Land Council telling us that Aboriginal communities cannot see the jobs actually flowing to them. We have had plenty of complaints about fly-in fly-out mining, and obviously that would tend to infer that the jobs are not going to those communities. So on both sides, whether you are talking about the miners themselves or the communities, there is basically a complete impasse in relation to native title; they just are not coming together at all. In your submission, do you believe that there is basically a breakdown in this? I accept that a national coordinated approach to native title is the way you want to go, but what specifics does your department see as the way to go to fix up particularly those kinds of impasses where you have two sides that just cannot see any way out?

**Mr Kendal**—Can I seek clarification? When you say an 'impasse', is that with the consultation?

**Mr CAMERON THOMPSON**—I am referring to the recent submission that came in from the Chamber of Minerals and Energy that we were looking at before. Their comments about native title and their recommendations were getting into state and federal governments and saying that the system had broken down, that there was little by the way of agreements underpinning development and that there was no infrastructure. They were basically calling on governments to get involved in all those things and saying that agreements were currently not working and that all levels of government were failing in their responsibility there. Then on the

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other side, I am saying that the Northern Land Council cannot see any jobs coming out of this. So that is a kind of an impasse. If the Aboriginal communities themselves cannot see any jobs or benefit from mining in their areas, why is there any interest at all from them in having a talk with a mining company? That is the kind of impasse I mean. On the other side, the impasse from the mining companies occurs when they cannot find anybody to negotiate with—they cannot find a leader in the community; they do not know who is a traditional owner, they cannot identify one. So there are impasses on both sides.

**Ms De Soyza**—I think it is a fairly complex question. At the risk of giving it a too simple answer, I can say that the starting point, if you are talking about a native title applicant group, is the native title claimants. I think the people that mining companies need to talk to are readily identifiable.

**Mr CAMERON THOMPSON**—But they do not necessarily turn up and do not necessarily want to talk, because they are not interested.

**Mr Fong**—I would not mind interjecting there. Just dealing with the heritage act, what we have found is quite often that with the mining companies, because it is a heritage issue, it is the last thing on their agenda. Everything else has gone ahead and they want, for instance, to get permission from the state to use the land under the heritage act, and it is the last thing they want to do. It is rushed. Aboriginal community members—or the right ones; the companies may talk to a couple of small people—do not feel that they are being consulted. That is where that breakdown occurs. That is why we were talking earlier about trying to get consultation occurring at the beginning of any mining tenement or development rather than waiting for the last section.

**CHAIR**—That is not consistent with the evidence we have had to date.

**Mr CAMERON THOMPSON**—Absolutely. It seems to me that the first thing they think about is what is going to happen in relation to native title.

**Mr Fong**—That is native title. We have two pieces of legislation happening here. There is a native title regime and then there is the Aboriginal Heritage Act, which is state legislation.

**CHAIR**—We have had evidence of enormous delays and significant cost, particularly out of an exploration budget. Is there a way that you can suggest that we can overcome that?

**Mr Fong**—I think Anne might be the better one to talk about this but there are the standards and the Aboriginal heritage working groups which are looking at it.

**Ms De Soyza**—It may well be true in some areas that it is difficult for mining companies to engage with native title applicant groups. In other areas, I think that there have been some good initiatives put into place. There was an Aboriginal employment and training scheme that I knew of some years ago. I am not sure if it is still in place in the Pilbara. That was run by Hamersley Iron. I know that Argyle Diamonds are doing something similar in relation to their diamond mine up in Kununarra. I think that there is a bit of a mixed bag here. You have some cases where companies want to engage with local Indigenous groups. There are stories of successes.

**Mr CAMERON THOMPSON**—Argyle and the other examples that you are giving are long established in those locations. We are talking here about where people want to go in and explore; it is a completely different thing. You may not ever find anything. You may not be there for a long time. There are all these things. But they have to get talks before they can get approval to proceed. They say they cannot get anyone to talk with, and on the other side they are saying, ‘We’re not interested in talking.’

**Ms De Soyza**—Can I refer you back to my earlier comments about the operation of native title representative bodies? While native title representative bodies do not necessarily represent every single applicant group in their region, they are the starting point for contact with Aboriginal people in any region. If they are functioning properly, they would be a very useful first stop for any company seeking to establish a presence in a particular region. This is going back to those comments about making sure that rep bodies are adequately funded to carry out their functions under the Native Title Act. I think the situation that you are talking about only underscores how important it is to make sure that we have efficiently functioning and well-resourced rep bodies operating in each of the regions.

**Mr CAMERON THOMPSON**—The Chamber of Minerals and Energy submission says that the Commonwealth and state governments could assist:

... in the identification of leaders within particular Indigenous communities. Additionally, the negotiation of agreements with people other than the traditional owners and leaders of the communities has resulted in the diversion of considerable amounts of money away from communities into the hands of individuals and groups.

I am concerned that, if there are these groups, those groups are not effective.

**Ms De Soyza**—Which groups are you talking about?

**Mr CAMERON THOMPSON**—The ones that you were referring to.

**Ms De Soyza**—The native title rep bodies?

**Mr CAMERON THOMPSON**—Yes.

**Ms De Soyza**—Without making a bald statement about them not being effective, I think that they could be more effective. I think that ensuring they are properly resourced and efficiently functioning should be a priority.

**CHAIR**—How should they be properly resourced? You are not going to tell us that it is by giving them more money, are you?

**Ms De Soyza**—I did mention that in my comments earlier. In fact, as I did comment earlier, that has been flagged in two reports that the Commonwealth government itself commissioned, in 1995 and again in 1998. The issue really is that there has been an increase in funding to the native title system but that money has gone to the National Native Title Tribunal, the Federal Court and the Attorney-General’s Department. Between 1995 and the present, that money has not actually found its way into the rep body system. I think that could be a starting point; it is definitely not going to resolve all of those issues.

**Mr CAMERON THOMPSON**—If your representative body had the attitude, ‘There are no jobs in mining, so we are not interested,’ then that is not going to facilitate any outcome. Yet there are clearly bodies out there with that kind of view. There are other bodies; for example, years ago, I was involved when they set up that Mount Todd thing in the Northern Territory with the Jawoyn people and that was very effective. That was a good arrangement. I think the number of groups which actually have a proactive view towards encouraging mining is obviously—certainly in the experience of the Western Australian chamber of mines—very small.

**Ms De Soyza**—If people are not interested in the jobs on offer then I guess there is nothing much that can be done about that. I cannot really comment on that.

**Mr CAMERON THOMPSON**—My point is that you are advocating these groups as the answer to the problem. What I am saying is that if they do not have that interest then, once again, we are back at this impasse and there is no way through that. Surely there must be a way whereby, in the interests of the community, a resolution would be reached between the mining company and representatives of the community; even when there is a representative body which is just not interested in playing ball. If the representative body has that attitude, it is pointless it being there.

**Ms De Soyza**—I am not sure whether the chamber’s submission actually says that that was the issue: that the rep body was not interested in the negotiation process.

**Mr CAMERON THOMPSON**—I was juxtaposing the view that nothing was happening and no progress was being made with the view of one of those bodies that there were just no jobs there—that the miners fly in and fly out, that the jobs do not go into their communities and things like that.

**Ms De Soyza**—It seems like the situation you are describing with the Northern Land Council is actually one where the rep body concerned is interested in negotiating jobs and is interested in securing some community benefit out of mining for their constituents but that is not on offer from the other side. Obviously there can be that issue on both sides: whether jobs are on offer from the miners and whether the land council is interested in engaging.

**CHAIR**—I do not think we are going to progress this question any further.

**Mr HAASE**—Your comments about not being able to progress this question dismay me, Mr Chair, because this is the track that I am going down as well. The comments you made about more money being provided for rep bodies amazes me, Ms Debate Soyza, because I see so many of the supposedly negotiated settlements being disputed, so much of the money going into legal fees and decisions being taken but then challenged in a higher court.

I wonder whether the money going into rep bodies is doing anything—except that it is part of the system that has been arrived at for national native title—and yet we keep on doing it. We all know of cases where the right to negotiate is being used as the right to not negotiate. I think that creates huge dilemmas for small explorers—and major ones at this rate.

Your examples were Argyle and the Pilbara activities of Hamersley Iron and the like. All of those exploration efforts were carried out prior to this spectre of native title et cetera, so that is

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why they were on the road and doing very well. We have heard from Rio Tinto here today. I am the first to extol their virtues in their relationship with Gumula in the Pilbara, for instance, but these are large companies and many of their activities were pre-Mabo and pre native title. What are the small explorers to do? We are hearing all the time that they cannot identify the rightful owners. The rep bodies say they know, but then they cannot get those traditional owners to a meeting place. Years are wasted and thousands of dollars are wasted on convening meetings and having people not turn up to negotiate. The cry for more resources for rep bodies is surely a hollow one. I cannot see where, given more resources, the process would be more effective. I would like you to elaborate on that so that we can be more confident in making recommendations along those lines.

**Ms De Soyza**—The state government has recently been engaging with a number of applicant groups in relation to a compulsory acquisition on the Burrup Peninsula. It was necessary to provide a significant amount of financial assistance in order to ensure that we were able to negotiate with them and that they had access to the necessary expertise. That is the type of situation I am pointing to—where what you have on the other side is a system of organisations that are not resourced. Resourcing is about expertise as well as funding, but if you do not have a professional organisation to begin with you are not going to attract expertise to it. If that is what you are engaging with, negotiation is almost impossible unless you have enough money to make sure that the other side has the resources it needs to engage with you. It is exactly the same point that you were making about Rio Tinto and others. They are big companies and can perhaps afford to do that; the smaller ones cannot.

I am advocating more attentiveness to making sure that the bodies that are set up under the Commonwealth act are effective and are resourced properly to do what they are meant to be doing, and I am signalling a concern later down the track about prescribed bodies corporate, which are the new rep bodies in the post-determination world. Where you have a native title determination, the rep body effectively drops out of the picture and you have this tiny little corporation. At the moment there has been no thinking about how these corporations will operate, and they are the bodies that states, mining companies, the Commonwealth and anybody else who is interested in land development will have to deal with. If they do not even have an office or a telephone—there is no money whatsoever, no capacity, no expertise, nothing at all—that is a significant problem on the horizon and we need to start thinking about how to manage that.

**Mr HAASE**—Isn't that hand holding from the cradle to the grave?

**Ms De Soyza**—It might not be hand holding. I would like to think that what is necessary is building up the capacity of these organisations to function on their own. I do not know that I can say this with very much authority, but I understand—from something I heard the other day—that there was this attentiveness to building up the capacity of the land councils in the Northern Territory when they were first set up. I think there needs to be some kind of thinking around how we fund and how we otherwise resource rep bodies and prescribe bodies corporate to make sure that, when we have to negotiate with people, there are actually people on the other side to talk to.

**Mr HAASE**—But after all we are talking about the impediments to resource development.

**Ms De Soyza**—That is right—and access to that.

**Mr HAASE**—We are not talking about impediments to Indigenous groups gaining Native title.

**Ms De Soyza**—No.

**Mr HAASE**—We must not stray from the course, must we?

**Ms De Soyza**—I am not straying from the course. I am talking about land use and land management decisions in the future. Rep bodies are important in determining native title, and that is one of their functions, but the other function is to represent people in the future act processes—you know all about the grant of mining tenements and the establishment of industrial estates like the one we are trying to establish on the Burrup Peninsula.

**Mr HAASE**—Keep Maitland Estate in mind.

**Ms De Soyza**—Could I refer back to a comment I made earlier. There is already a certain amount of money that goes into the native title system from the Commonwealth—

**Mr HAASE**—Substantial.

**Ms De Soyza**—and there is a review of the allocation of that funding currently under way. As I said earlier, that is an opportunity for the Commonwealth government to determine out of a bucket of money that is available where the funds might more effectively be spent. I suggest that more of that money is put towards the rep body system, which is much more important in terms of making the processes in the Native Title Act function more efficiently than is, say, putting more money into the National Native Title Tribunal at this stage.

**CHAIR**—We are out of time. Thanks very much for attending.



[3.44 p.m.]

**O'HARA, Mr Brendan Wayne, State Manager, Western Australia, Australian Stock Exchange Limited**

**CEGLINSKI, Mr Mark, Partner, Taxation, Ernst and Young**

**FRY, Mr Paul, Partner, Ernst and Young**

**CHAIR**—I now welcome representatives from the Australian Stock Exchange. Do you have any comments to make on the capacity in which you appear?

**Mr Ceglinski**—I am here on behalf of Ernst and Young to support the Australian Stock Exchange Limited.

**Mr Fry**—I am also here from Ernst and Young to support the Australian Stock Exchange Limited.

**CHAIR**—Would you like to make a short opening statement before we proceed to questions?

**Mr O'Hara**—In our submission, we made two recommendations. The second one relates to section 707 of the Corporations Act 2001. I would like to point out that that recommendation has really been subsumed by developments and proposals in CLERP 9 that the government are reconsidering. In relation to our first recommendation—about impediments, capital raising and flowthrough shares—I would just like to make a few brief comments on the history of the mining companies with ASX, to give you some sort of context for why we are making the submission. We have been providing risk capital for mining companies for well over 100 years. In fact, on some figures given to me by a leading industry figure, at the turn of the 19th century there were some hundreds of companies that were dual listed on the regional stock exchanges in Australia and on the London Stock Exchange, raising significant amounts of capital for mining exploration and development.

During the whole of the 20th century, we have been involved in providing risk capital for mining companies. After the Poseidon boom and bust in the mid-seventies, we saw a very genuine effort to lift our reporting and governance standards. During this time, ASX worked closely with industry bodies to develop what turned out to be a world-class system of resource reporting. In the late eighties, stock markets around the world suffered from irrational exuberance, and the small mining company did not escape the perceptions of being caught up in the excesses of this period. After the recovery in sentiment for mining companies which took place in the early nineties, we would say that the small exploration mining company really came into its own.

I worked at ASX during this time, and my impression is that the mining exploration companies have matured into a world-class industry. Over time, they have developed considerable investment expertise to match the considerable mining expertise that we have, which I refer to as our intellectual infrastructure. It is my observation that among the industry professionals—by this I mean the geologists, managers, accountants, lawyers, stockbrokers and

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investors—there had developed a very good understanding of how capital should be allocated in the mining industry. My view was that capital tended to go to the right people in the exploration industry and then into the ground. My impression was that these companies were very efficient and effective in their endeavours, and I think this is a view generally held in the industry.

Reflecting on these companies, I would acknowledge that throughout the nineties they achieved a generally high standard of corporate governance. The small mining company has been noticeably absent from the list of companies participating in the excesses of recent years—or, in fact, over the whole of the nineties. It is ironic that, at the time when the industry really matured, it has been met with a significant and sustained downturn in investor sentiment. I would say that the peak was achieved in 1997 but that investor sentiment has significantly declined since this time. I have been involved with other regional stock exchanges in the provision of boards and official lists for start-up companies and for the small mining companies. That experience has caused me to reflect on what a great asset we have developed here in our investment industry with the mining industry, in terms of the understanding of the investors, the professionals who participate in the investment industry and the mining industry professionals. We have really developed a very high level of understanding. When I have looked at and advised other exchanges, I have thought that this was something that would take them literally decades to develop in the way that we have. That has been the culmination of decades and decades of growth on our part. In a sense I am saying that over this period of time we have developed something close to what you could consider a national asset. We support any move to assist our mining companies, and we think that they have matured into a world-class and truly worthwhile industry.

**Mr Ceglinski**—I thank the committee for the opportunity to give a brief presentation today. I have come here today in support of the Australian Stock Exchange's submission, specifically in relation to their recommendation to introduce a tax incentive for investors by way of a tax advantage equity security, which is similar in form to the Canadian flowthrough shares. Ernst and Young provides services to a significant number of resource companies within the minerals industry and also within the oil and gas industry. We have seen, particularly within the highly cautious, competitive and selective capital market at present, the difficulties that juniors face in raising risk capital, particularly for exploration activities.

Often, in an attempt to divert capital into the junior exploration market, many of these companies have sought a number of options, including the provision of tax incentives to their investors, in order to raise capital. In some instances they have sought to form drilling funds whereby their investors can participate directly in the drilling activity, assume some of the risk and also receive a tax deduction for that activity. Unfortunately, the taxation law in relation to such activities is not entirely clear and the tax office has not been willing to provide rulings on this practice. We believe that there is clearly a demand for a tax incentive investment arrangement, particularly for the junior exploration market, and that such incentive needs to be stipulated within the tax law to provide investors with certainty. Certainly, Australia has in the past had tax incentive equity in the form of sections 77D and 160ACA, which were features of our law and no longer are. These sections provided deductions to investors in such companies in certain minerals and oil and gas instances.

In determining how a scheme should operate, we strongly recommend that the government, Treasury, tax office and industry should consult broadly together to work out how such an incentive should be put together to ensure that it is workable and effective. Consideration

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should be given to many issues such as the timing of the tax deduction, the types of companies that can avail themselves of the deduction, whether or not there should be any limitations on the amount of capital that companies might like to raise in this manner and the nature of the provisions that provide the checks and balances to ensure that the capital raised is spent in the intended manner. Consideration should also be given to whether or not this form of incentive should have certain targeted incentives from time to time, which would be provided to encourage exploration in new or remote areas such as deep water exploration for oil and gas, which is currently a very topical issue. Whilst we understand that some features will be necessary to ensure that there is no abuse of these provisions, we strongly recommend that the provisions reflect a simplicity in both their entitlement and their operations. Thank you again for the opportunity to present today, and I welcome any questions.

**CHAIR**—Thank you for that. We have had evidence given before the committee that, over the last decade, a lot of money that used to go into junior explorers went off into the tech stocks—and of course, in some cases were left with nothing as a result of that. Coming from the stock exchange, what are your comments on that?

**Mr O'Hara**—That is undoubtedly true. I remember at one stage David Hale saying that the Australian currency was marked down because we were engaged in old economy type industries such as mining. That was the thin end of the wedge for some of the miners—all of a sudden they were responsible for the currency drop. Markets are sometimes moved by irrational things and sometimes they are moved by irrational fashions. The market loves upsides; it loves blue sky. When the tech boom came along people thought we were going to end up living on the Internet and life was going to become dwelling in the cyber world. There was a disconnect with reality. Certainly, we saw that the hot money, or money that would go into start-up companies, diverted from the mining companies into the tech companies. In hindsight, all that has really been shown to be a misallocation of capital over those years. I think the miners were suffering from the shift in the way we perceived gold at that time anyway, but then the tech bubble consumed any spare risk capital there was for the mining companies.

**CHAIR**—Do you think that after we get over this little hiccup it will flow back?

**Mr O'Hara**—It is interesting. There are a couple of factors there with market sentiment. One is that the market loves upsides. So in a sense, when your reputation as a blue sky industry gets tarnished, it would be very interesting to see whether it fully comes back around again or whether, now that there has been a diversion of risk capital from mining companies to other sorts of industries, the genie will be out of the bottle and people will look for biotech, gene therapy or whatever the next new thing is. Whether it will ever return to mining is doubtful.

My feeling was that there was a shift between viewing gold as a store of wealth and viewing it as a commodity. Once you broke that nexus of viewing gold as a store of wealth, the speculative value of gold seemed to disappear. I do not know whether it will ever return or you will get the same sentiment towards the junior exploration companies. You may not. There is a real possibility of that.

**Mr HAASE**—I am concerned always with the value of gold, for natural reasons. I am very concerned that you do not have a mineral resources index these days. Gold has suffered from many hands, and the perception of its value, as you have just said, is at something of a low

point. It has been bolstered by some international activities, but general domestic perception is that it is an old item. Why do you no longer maintain a mineral resources index?

**Mr O'Hara**—Are you talking specifically about the gold index?

**Mr HAASE**—No, I am talking about the resources index. You no longer maintain a mineral resources index on the Australian Stock Exchange.

**Mr O'Hara**—I know we have had a certain amount of debate about the gold index. We no longer maintain it because we do not actually control the indices any longer. That is no longer part of our business. Standard and Poor's have the full proprietary rights over the indices. Under our arrangements with Standard and Poor's, we are not allowed to produce an index unless we go through certain procedures with them. There are certainly problems in terms of us running the gold index—firstly, from the point of view of Standard and Poor's and, secondly, from the point of view of sustainability. I am not fully across the ins and outs of that mineral resources index. It is essentially because we do not run that index anymore; Standard and Poor's do.

**Mr TOLLNER**—What could be the possible costs of running an index?

**Mr O'Hara**—They are not insignificant. I am not in the index department, but when I have had the debate with them about the gold index, for example, I would always push for these things because, if the mining industry does not have an advocate in Western Australia within the ASX, where will it get one? So I always push for them. When I discussed the gold index with them, they did tell me that the costs were considerable. I cannot recall the exact figures, but they were not insignificant. I think we put forward a proposal, when we debated the gold index, about some financial costs and whatnot, and it certainly was not an insignificant sum of money.

**Mr HAASE**—So there is no other reason? I got exactly the same statement from Standard and Poor's. I rang them and got that response as well. There is no other reason, no hidden agenda, here? There was nothing else that motivated it?

**Mr O'Hara**—Absolutely not. If we get a complaint from the mining industry on anything, we look at it very seriously. I can talk across the board here. We consider the mining industry to be a very valuable sector that is part of the markets that we run. There is no question about it. It occupies a unique place in our market. This is the first time I have heard this complaint. If I had heard it before, I would have progressed it within the organisation and have the answers for you.

**Mr HAASE**—Anything that makes access to knowledge about the activities of the portfolio generally in the public's mind decreases the day-to-day interest and makes new technology perhaps more exciting for them. You and I are now equally committed to the prosperity of the Western Australian mining company. We will move on because I know the boss will tell me that I am running out of time. Today we have almost unanimously—with one exception—been told that we ought to have a flow-through share system. Most of the proponents, however, appear—to the best of my interpretation—to have little detailed knowledge of the specific workings. As you are from the ASX I thought that you would have some detailed knowledge. Are you simply using the coined phrase 'the Canadian model of flow-through shares' and recommending that?

**Mr O'Hara**—We have obviously thought about it and that is one of the reasons we have Mark and Paul here today. I have thoughts on various models that I think might work. When I

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reflected upon it I did not see that there was much point in coming up with a specific model before the committee because it very much depends on the particularities our tax system as to what will work best. I do not think the Canadian model is necessarily going to be a precedent for us because they will have a different taxation system in terms of capital gains and all the regional taxes that they have. The second thing is that I have found in my business, in my job, that the first step is to consult all the industry people. So if we make a new listing rule or something, the first thing we do is ask the practitioners and the people on the coalface about what will work for them. That is the first step. We do that with the mining industry a lot. In terms of actually formulating a proposal, no, we do not have one. I have thought about various models that I think would work, but that is just my opinion.

**Mr HAASE**—So you would make a general plea to this committee to convince the government to take advice and pursue the flow-through shares model?

**Mr O'Hara**—Yes.

**Mr HAASE**—Okay, that is fine with me.

**Mr CAMERON THOMPSON**—Regarding your comments earlier about how people may not return to mining shares and may go on to speculate in other areas, could you comment on whether it would be in Australia's interests to try and encourage people to take a stronger look at the opportunities in mining and whether the flow-through shares idea will help in that regard? Should that be seen as part of a strategy to get people to do that?

**Mr O'Hara**—I have a fairly personal view. In my experience of the mining industry in the 10 years that I have been dealing with it in the exchange is that it is a unique industry. I feel quite privileged to engage with the industry. The thing about the IT, the tech boom and all that sort of thing is that people are looking for growth in the economy in all these fancy, flashy areas, but sitting right under our noses is incredible expertise that has matured over more than 100 years. If you talk about a centre of excellence, a Silicon Valley of an industry, that is what we have here. Recently, an American theorist talked about the theory of centres of excellence, centres of knowledge, and that is exactly what we have in mining. We have developed that.

I have talked to the other exchanges and I have been around the region. You can see this tremendous asset that we have built up and you wonder whether people are not just chasing the greener grass on the other side. What we should be thinking about is developing the industry that we do very well; we have a unique collection of people and skills in that area. One of the important arguments from Canada is the one about the intellectual infrastructure. You can explore anywhere in the world but, at the end of the day, mining companies all come back to a few centres of excellence: Canada is one, Australia is one, and maybe there is some underground excellence in South Africa. You can go anywhere in the world and mine, but you can go to only a few places to tap into the professional community, and that is what we have. If you do not maintain that professional industry by increasing your mining inventory and the exploration work, then people will leave those jobs and those skills will be left forever. That is one of the real dangers. Personally, my view of this industry means that, yes, I have a preference skewed to mining because it is something I know we do well; we are proven performers in that area. I think it has a special place, as you say, in our market, and I would encourage anything that will foster that industry.

The anecdotal evidence is that if you have a flow-through share, it is going to stimulate capital raisings for junior exploration companies. Logically it must, because at the moment people are putting in a dollar and getting no tax deduction. If they subscribe for a 20c share and get a tax deduction, a flow through, that will cost them far less; yet the same amount of money will be in the kitty for the company to go off and do the same exploration program. That must give stimulus to the industry. In some instances, people I have talked to who have been involved in the start-up of a mining company have told me the only reason they have got it to the point where they can list it is because they have been able to use their exploration funding for the start-up capital. They have been able to offset that against other revenue as a tax deduction. That is why they have personally been able to get the company to the point where they could list it. All of the feedback indicates that, yes, this would stimulate investment in small mining companies.

**Mr CAMERON THOMPSON**—Today we have been hearing about issues like failure to access land which have resonance throughout the industry, and that we have this huge problem. How serious a threat is that to the centre of excellence idea, to the skills and expertise that we have? Is that potentially a life-threatening situation for these wonderful skills you are talking about?

**Mr O'Hara**—We have stayed away from making a submission on those points because it is not our area of expertise. My personal view, which I have gleaned over the years from all the people in the industry I know and have talked to, is that the impacts of access and the other regulatory issues are undeniable. But that is a purely personal view from my engagement with the industry over the years.

**Mr CAMERON THOMPSON**—Is that starting to recede as a concern? You obviously cherish this area. Are we starting to turn the corner on that, or is it still building up as a serious concern?

**Mr O'Hara**—I have not seen anything that would indicate to me that we are turning the corner on it. Probably what I have seen, going through the quarterly reports, is that people have been spending less money on exploration. If you are not interested in exploring an area, obviously you do not have an access issue. So I am not sure whether it is the fact that I have not seen so much about it lately, or whether it is more to do with the fact that there is not the same amount of exploration going on.

**Mr CAMERON THOMPSON**—They are staying away.

**Mr O'Hara**—Yes.

**Mr HATTON**—I have learned a couple of things today. I thought the timing was a little different. Apparently gold as a store of wealth has only recently gone out the window, whereas I thought it was about 1932 when Churchill decried the fact that the gold standard was no more. Since then we have been trading differently, with the dollar and a few other things. Also, there has been the tech boom and its dreadful association with the mining area. The tech boom might have been modelled on what we have seen happening in the mining area at a number of different times. We have seen those bubbles—

**CHAIR**—Poseidon.

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**Mr HATTON**—Poseidon in particular. The South Sea bubble was not mining, but we have seen the same sort of things. The height of the tech boom was the mining coms. You knew when they emerged. Ultimately the whole thing became entirely farcical. The mining companies dressed themselves up in those robes at the time. However, to be more serious, you put a strong argument in regard to the intellectual capital that we have within this industry, and an argument relating to the concern that that intellectual capital and the intellectual infrastructure may well be prejudiced. If we put that argument with the other evidence before the committee, this particular downturn could have dramatic effects. I think Mr Walker from Metex was arguing an entire sea change here: the fact that those people who are highly skilled in the industry have gone—there are already a lot of them, and they will not be coming back—so we will not get that feed-in. The great advantages we have of intellectual capacity, of an understanding of the industry, of feeding into technological change and innovation, are all currently prejudiced. Was that a reasonable statement of where we are at, if a little too dramatic for this time of the afternoon?

**Mr O'Hara**—I think that is right. I think the intellectual capital is going to be eroded over time. At one stage, 50 per cent of the Western Australian AIG members were unemployed. No industry is going to retain its level of expertise faced with that sort of difficulty.

**Mr HATTON**—Fifty per cent is a hell of a lot.

**Mr O'Hara**—Yes.

**Mr HATTON**—You made the comparison with Canada previously. We know that in Canada they have tried to rejig themselves and so on. Do you think there is a particular problem now because of the change in ownership of much of the industry? Are we seeing a different way of going about things and an unwillingness to put the dollars down to do the extra exploration because it is easier just to do the brownfields stuff?

**Mr O'Hara**—The people with whom I deal—I call them the ‘true believers’—are the best in the industry. Some of the people whom we see who have gone through the tech boom and who are still running their companies are diehards. In our experience, they are the cream of the industry. A lot of the good people have been retained. They are the ones still running the companies. If that downturn in exploration were to be sustained over a period of time, you would imagine that it would start to impact on the core people.

**Mr HATTON**—Part of the WA government's argument was that we had to create a perception—because perceptions are important—that this was a more prospective country than people thought. To turn the marketing around, should we be going to other countries to say, ‘We are a good place to come to and we have a good range of things that you could be doing; you could be investing in this,’ rather than accepting the situation as it is? Do we need to argue much harder the values of our industry?

**Mr O'Hara**—One difference I notice between the Canadians and us is that—and I think our expertise is equal to theirs—they seem to have a very strong pride in their industry. They are very strong at marketing. The Toronto exchange takes the position that it is the No. 1 stock exchange for mining companies. It has the biggest peer group of mining companies in the world. The Canadians are very proud of that and they market and sell themselves very strongly on that basis. That is something that I think we should consider here. The tax incentives that the

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Canadians give are but part of that overall tapestry of the way they view their industry. Paul has worked in Calgary.

**Mr Fry**—I lived in Calgary for 10 years and returned just a couple of years ago. They are very proud of their mining industry and of their oil and gas industry. The Canadians are world leaders in oil and gas. Their people work all over the world—a lot of them in Australia. They work in Russia, the US, Europe, all over.

**Mr HATTON**—They have a fairly deep understanding of just how important those resources are to Canada, given the nature of the landmass that they have. I suppose that is an area where there is great similarity with Australia. The nature of our landmass is such that mining activity is extremely significant. It is in areas that are difficult to access and difficult to work in. That is part of the culture.

**Mr Fry**—Plus the Canadians have the resources, and they feel they have the capabilities and the skill sets to develop them rather than having to outsource them to other people.

**Mr HATTON**—Thank you.

**CHAIR**—Thanks very much for attending.



[4.13 p.m.]

**HILL, Mr Alan David, Managing Director, State One Stockbroking Ltd**

**CHAIR**—Welcome. Before we proceed to questions, would you like to make a short opening statement?

**Mr Hill**—Yes, very quickly. I am speaking in favour of the junior sector of the Australian Stock Exchange, basically. It is an area where we raise money. We have day-to-day contact with people wishing to float. We put up with the mums and dads when they have put their money into these companies, and that can be a long, drawn-out process because over the years their money can, on occasion, waste away to nothing. Obviously we know on occasion that there are major success stories.

I will make a few points. First, the small explorer is the lifeblood of the mining sector. All we have to do is think about one rather eccentric gentleman who used to fly around the north-west and throw spears out of planes. When you look at the iron ore industry as it is today, that is the story wherever you look in exploration. The big companies do not draw the right sort of people to make discoveries. The structure of those companies is not conducive to exploration success.

Secondly, investment markets globally are changing. The focus used to be years. It has gone progressively from weeks to days to minutes, and even to seconds; sometimes it is almost microseconds. The attractions are their volatility and their liquidity. Increasingly the flows of capital around the world are being driven by bigger and bigger companies, be they Merrill Lynch, the major investment banks or the major corporates. In this environment your junior company does not have much scope to raise capital. It is getting more difficult by the day. If you look at how some of the Third World countries are struggling, it is because these major corporations basically play with them. I do not want to go too far into that today, but really, for someone playing around and trying to invest money and get value out of the bottom end of the exploration sector, it is a daunting task.

To come back to the comments made earlier, in the 1980s the resources sector used to comprise approximately 30 per cent of the Australian Stock Exchange. It is now as little as 10 per cent. Some of that is foreign acquisition. Obviously Australia is a very attractive place to hold mineral assets. The political risks are low and the technical expertise, as we know, is unparalleled. That is what is happening there: there are lots of takeovers—and there are lots of takeovers of mining service companies as well as of mines.

In my view we need a system of tax breaks that have to be carefully crafted. I think they should focus on junior companies. I think they should focus on a multitiered approach, one being the project and the second being the people running it. I know when we look at companies to float and to commit our money to and to propose that other people follow us, the technical expertise of the people is crucial. All too often people are coming to the market and getting backing but just not having a clue what they are doing.

To come back to the earlier points about mining companies racing off to do Internet projects, as far as we are concerned that is nonsense. Any sort of tax structure should be aimed at saying,

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‘Okay, do you have a team of people with the right credentials?’ Then you get your stamp. Having got your stamp, then you go and locate a project. That is the other thing about these companies—they can wait around for years for the right opportunity to come up. Lots of the companies on the ASX are just sitting there looking for projects. They have their own set of criteria: what are they good at, where is the project, what is it going to pay for? In my view that is what you need—something that will focus on the smaller companies and that will stay local. I think there is a much higher propensity for them to spend local and, if they discover something, the ASX knows about it straight away. If a major multinational makes a big discovery we may not know about it for a couple of years, so the benefit tends to be more widespread when you are dealing with the junior companies.

**CHAIR**—Thank you very much for that. I note in your submission you present a fairly pessimistic picture of the current state of the resource exploration sector. What do you see as the future structure of the sector in Australia?

**Mr Hill**—It has been increasingly dominated by major companies. There is less public profile. I think it is going to be harder and harder for junior companies to get going.

**CHAIR**—How do you reverse that, in your view?

**Mr Hill**—With a suitably crafted incentive for junior companies to assist them to raise money over an extended period, and for them to be prepared to be subject to audit over that period. I would imagine the right sort of thing is to have a capacity to go to the market on a preferred basis of, say, \$2 million a year for five years. If you have the right people running that company they have specified targets. If they deviate from that, the auditors move in and say, ‘Look.’

**Mr TOLLNER**—You just said that investment horizons are shrinking, in some cases down to seconds. I understand that this would be driven by people seeking to maximise returns on their investment.

**Mr Hill**—It is driven by the major financial players who take your money and have it exposed to derivatives. They can take half a per cent per day or take it in three seconds in a day. They have done a good day’s work so they can pack up and go to lunch. That is what is happening.

**Mr TOLLNER**—That is right. The time span of having that money in a particular business has been reduced because speculators, or whatever you may call them, are in there to make a return relatively quickly. Since 1992 we have had a system of compulsory superannuation in Australia. Superannuation funds are growing exponentially. There is something like \$550 billion sitting in super funds. I would have thought that a typical super fund would have a long-term investment horizon, as somebody getting into the work force at 20 years of age and retiring at 65 can afford to invest over a long period. I would imagine that the trustees of those particular funds would bear that in mind and that their liquidity needs would not be as high as those of other companies. I am wondering if you can suggest a way of tying those investment goals in with the fund manager or the professional investor who is out there to make a return. I suppose they are working on behalf of the super funds as well.

**Mr Hill**—A lot of that money does sit tight in those funds and does not move. If you have 100,000 BHP shares in a super fund and you are the manager, you would be buying and selling

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BHP against that position, you would be dealing in derivatives and you would be looking for every opportunity you could get. The long-term position is still there, but the liquidity in the market is being driven by these other issues. Do not forget too that, if people are chasing volatility on risk, there are a lot more alternatives: you have derivatives, the medical sector, the tax sector. In the old days resources used to be it; now there are a lot more alternatives.

**Mr TOLLNER**—I suppose super funds are now looking at investing in infrastructure opportunities, which tend to be fairly large-scale projects and can quite often have a long time frame before there is an expected return. I am wondering how you could possibly replicate that with something smaller for junior explorers.

**Mr Hill**—It is not the same business: you need highly qualified people and it is very difficult. The one thing that strikes me is that there is still a lot of ground in Australia that is far from fully explored. Major companies, mainly offshore ones, are spending big dollars up in the Northern Territory now. There is a lot more one can do as a government, federal or state, to create the right conditions for further exploration.

**Mr TOLLNER**—They are spending big dollars but whether they are getting access to the land is another thing.

**Mr Hill**—I believe the minerals are there.

**Mr HATTON**—What do we do with Geoscience Australia and the rest of them? Do they need to do more?

**Mr Hill**—The geoscientists?

**Mr HATTON**—Yes. The key points you make—if you give the data to them for free, as it has been argued, or at relatively low cost—are that the information has been available primarily to the majors and that in fact the minor parties that are the core of your submission cannot get the value out of the data that is available. Do you want to tell us more about that and what problems you see in that area?

**Mr Hill**—It is a very capital intensive business. What comes to mind when you think about the issues that we are confronting here is the capacity to take projects with particular scale potential—not necessarily spending massive amounts of money straight away but, for example, a 10-year project to explore parts of Central Australia that have not been looked at at all. Of course the major groups do have the advantage in that area. They have got all the technical expertise and they are not happy unless they are spending a hundred million dollars. So if you can you could come up with some sort of situation that can help jump over that hurdle and get the brains and the money together for local companies. From my perspective I do not see that there is much need for the majors to get funding assistance. They are doing quite well out of the whole regime as it is.

**Mr HATTON**—And they can extract the maximum value however it is supplied for much less or for free. But you indicated that the hurdles for the mining companies, even if the publicly available data is given to them for free, is that they do not have the people working for them or the experience or the expertise to grasp those opportunities. So therefore should the technical groups that we have be doing more for those smaller companies?

**Mr Hill**—It is a matter of commercial interest, I guess, and availability of resources, which are probably lacking. It concerns the sort of bodies they are—they are not profit making enterprises. Through some sort of initiative you could start to create an enthusiastic group of investors who had a tax advantage and had geoscientists who had been through some sort of vetting process. I was appalled about the vetting process when I put some money into trees some years back: I did not feel the federal government was doing the right thing by Australia at large because there did not seem to be any vetting process for that. Basically there was a right to a tax break for what could have been the most dubious project under the sun.

**Mr HATTON**—We have seen trees, ostriches and a whole series of things.

**Mr Hill**—And, might I say, being run by people who do not have any expertise whatsoever in that area. Every person who has put a submission to you today has talked about expertise. South Africa was mentioned. I spent some time over there and I can tell you that a lot of the brain power that was there is now here. We have had a bit of an injection. As these companies get taken over, gradually that will fritter away—make no mistake. They will be working in Denver rather than Kalgoorlie.

**Mr TICEHURST**—You say that to develop globally competitive mining expertise in Australia we need to maintain at least half a dozen major mining groups. You also say that foreign acquisitions diminish Australia's potential for offshore income generation. How should the government address that issue?

**Mr Hill**—In my view these tax incentives are required just to do that. Sometimes you read the press and you wonder what hold the US oil companies have over the US government. How can they be so blatantly stupid in their policies? The fact is that if you look at the foreign exchange revenue that those US oil companies generate for their country it is absolutely massive. That is why it is in our interest to foster these companies. If you can tie in to your tax break some sort of requirement that they be 60 per cent Australian owned, for example, you are creating a bit of an embryonic situation which has gone through a vetting process for the people—the projects have been vetted, the tax structure is right and it cannot be taken over within a certain prescribed period. What happens is a good goldmine comes along and somebody snaffles it up. Often with a goldmine, for example, the drilling results come through and grades are low and the tonnages are not there, but the experts can see that gradually all the numbers start to bulk up. Once you get enough to go mining and you get down in the pit, you can start to see that there are not 100,000 ounces there, there are five million. By the time it gets to that stage it is under foreign control.

**Mr TICEHURST**—In a global market, would that be seen as government intervention?

**Mr Hill**—It could be. It would have to be sold in the right way and put together in the right way.

**CHAIR**—There being no further questions, thank you for attending today. I thank all the witnesses who appeared before the committee today.

Resolved (on motion by **Mr Tollner**, seconded by **Mr Ticehurst**):

That submissions No. 95 and No. 96 from APPEA and Heron Resources Ltd, being supplementary submissions, be received as evidence by the committee.

Resolved (on motion by **Mr Tollner**, seconded by **Mr Ticehurst**)

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 4.31 p.m.**