



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON INDUSTRY AND RESOURCES

**Reference: Resources exploration impediments**

THURSDAY, 31 OCTOBER 2002

KALGOORLIE

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

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

**Thursday, 31 October 2002**

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

**Supplementary members:** Mr Ticehurst to serve as supplementary members for the purpose of the inquiry into impediments to increasing investment in mineral and petroleum exploration in Australia

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

**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 8.52 a.m.****THOMSON, Mr Graham Selkirk, Councillor, City of Kalgoorlie-Boulder**

**CHAIR**—Welcome. Before we proceed to questions, I invite you to make a short opening statement.

**Mr Thomson**—First, I would advise that there have been some modifications to the submission that has already been received. I have prepared new copies of the submission, which I now submit to you.

The City of Kalgoorlie-Boulder, as far as the role of local government is concerned, takes a somewhat different view to the traditional one. Given that this region is heavily dependent on mining, in February 2001 this city council established the Partners in Prosperity initiative. The purpose of that initiative is for us to give support to the mining industry with issues that, if solved, will be of general benefit to the region. That is the reason why the City of Kalgoorlie-Boulder has chosen to give evidence to this hearing. This morning I will concentrate specifically on two matters: one is the situation with zone tax rebates and the other is access to land, including native title.

Regarding zone tax rebates, we strongly support recommendation 20 of the Chamber of Minerals and Energy. It is on page 5 of the submission and it reads:

*The Federal Government reintroduces zone and living allowances that adequately compensate workers and families living in remote locations.*

Successive governments over many years have paid lip-service to the importance of developing inland Australia, yet the only serious attempt to do anything measurable about it was when the zone rebate was introduced in 1945. It was introduced at that time as part of the government's postwar development scheme to encourage people to go to the bush and develop farming and mining interests, in order that Australia should benefit as a whole from such developments.

There were no adjustments in the basic zone allowance between 1958 and 1981, a period of 23 years, when average weekly earnings in the same period increased by 85 per cent and fuel excise increased by 310 per cent—an added impost on costs in the bush. In real terms, the rebate has become a pittance and it is certainly not achieving that which it was originally intended to address. The plight of regional and rural Australia in general, and that of smaller country communities in particular, has been badly affected by the drain of people from the bush to cities. The end result has seen the demolition of communities, as banks and other services close due to a dwindling population.

In more established regional cities such as ours, we are forever complaining about the difficulty of attracting and keeping good professional staff, be that at hospitals or in the commercial sector. Also we suffer, as do other country towns, from the results of fly-in fly-out policies in the mining sector forced upon it largely as a result of tax policies that discourage local residency in favour of larger coastal bases. In spite of the continuing exodus from the bush and the increasing burden on the public purse to support many of these people in capital cities, governments have not seriously attempted to address this issue.

You might ask why we are considering this matter in local government. As local government, we see first the effects of policies which reduce the incentive for people to live here and, worse than that, encourage people to live in the coastal fringe. A change to zone tax rebates restoring them to their original and intended value will assist the mining industry greatly. It will see at least a partial reversal of the current exodus from the bush and it will return small country communities to being the valuable contributors they once were to Australian society.

The issue before us is the zone rebates; however, I will highlight another area where we pay a premium for living in the bush, thus increasing the premium for employing local people in the mining industry. If you have two children at uni and one at high school in Perth as a result of the particular education they wish to pursue not being available locally, every time you get the \$600 phone bill you also pay an additional \$60 nonredeemable GST—and this is simply for the privilege of speaking to your children on an acceptable number of occasions a month. Those same children cost you around \$40,000 a year in education fees.

If we are to reverse the current trends that are rampant throughout Australia, it will take decisive action by the federal government; we can no longer pay lip-service to the problem. Hence the reason for our suggestion that the rebate be reinstated to values as they applied in the early 1950s and then indexed so that the value is maintained in the future. In previous debates the federal government has claimed that it cannot pay people in the bush a special allowance, as it is discriminatory. I put it to you that the minority group known as the residents of regional and outback Australia, including those involved in the mining industry, have a watertight case for special assistance under existing positive discrimination legislation where minority groups are given special consideration. We are suggesting that the reinstated value should be of the order of \$15,000 per person—per taxpayer—representing a real incentive for people to live and work in the bush.

I turn to native title. Robert Tickner, a former federal minister for Aboriginal affairs, when speaking on Radio National's *Australia Talks Back* program just after the Mabo decision in 1992 was handed down, said in response to a question from me:

Let me give him and everyone else right around Australia, who has any interest in the Australian mining industry, whether as an investor or an employee to the industry, that the mining industry is going to get certainty from this legislation. First of all certainty that all existing titles and renewals of leases are going to be validated and so any suggestion that somehow the Goldfields are going to be affected in their mining by Mabo's claims is categorically ruled out and secondly the Commonwealth Legislation will put in place clear timeframes and a certainty of process for dealing with applications for mining on Native Title land in those parts of Western Australia, invariably remote, where Native Title may, may I emphasise, be found to exist.

Sometimes, when we start a journey, we are not sure where it will end. I think it is fair to say that our advice to then Minister Tickner was far more accurate than his assurances to the mining industry and us. Mabo was the first stepping-stone to what has evolved into a totally unworkable set of circumstances: of great benefit to legal practitioners, of little benefit to Indigenous people, of even less benefit to the mining fraternity—and simply a frustration to rural and outback communities.

We predicted at that time that the route being taken by the federal government would end up a mess, with Indigenous groups fighting each other—and we have seen plenty of that locally—as family groups became completely discouraged by the lack of real or measurable outcomes. In rare instances, generally where mining companies are required to deal with few claimants, successful negotiation has been achieved in a reasonable time frame. *Sovereign Risk (2001)* tells

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us that mining companies in Australia are concentrating on exploration in and around existing brownfield mines rather than prospective new regions and this can be directly attributed to issues of native title. Further, it outlines that 50 per cent of Australia is currently subject to native title claims, while over 650 claims have been lodged.

Western Australia has suffered most from the unworkable sections of the current act, with 82 per cent of the state under application by around 315 claims. Clearly, the process of mineral title applications is severely hampered by the native title process, and the performance examination report supports the findings outlined in *Sovereign Risk (2001)*. Clearly, Robert Tickner's predictions with regard to native title legislation were wrong. The City of Kalgoorlie-Boulder calls on the Commonwealth government to lead from the front in fostering an environment where all levels of government, industry, Indigenous organisations and individuals can work together for the social, environmental and economic benefit of all Australians.

The use of negotiated rather than litigated solutions to native title claims by the use of Indigenous land use agreements and the development of a framework agreement to cover native title issues, ensuring appropriate consultation processes, are seen as workable solutions. Our council strongly supports the Chamber of Minerals and Energy recommendation No. 17, which recommends:

The Federal and State governments fulfil their social welfare and infrastructure responsibilities with Indigenous communities.

The issues faced by the mining industry where they are expected to provide financial and other resources to assist in the establishment of social welfare programs and infrastructure developments are mirrored within our own community, where insufficient state and federal government funds are made available to tackle the problems faced by dysfunctional families. These people, often Indigenous, are largely the product of successive governments not coming to grips with the real issues being faced by those people.

Mr Chairman, I now direct your eyes to page 13 of our amended submission, which contains our recommendations. Recommendation 1 reads:

Define clearly the accountability of each of the three levels of government within Australia in relation to legislative requirements and departmental responsibilities, which impinge on resource exploration. Especially explore the following issues:

- a) Work with the Western Australian Government to create a pilot program which implements the recommendations from the Keating Report (2002) which highlight a greater need for cooperation and clarification of role between levels of government to ensure that the needs and concerns of peak industry bodies and Local Government are addressed.
- b) Actively pursue alternative methods of service delivery to ensure needs are met with the community of interest. Should this translate to the use of different levels of government in the delivery of service sustainable levels of funding are to be provided.

All of the other recommendations, apart from recommendation 2(h), are as were originally submitted. Recommendation 2(h) reads:

- h) Reinstate parity for zone rebates as they applied in 1954.

**CHAIR**—Thank you, Mr Thomson. I will start with the first question. The sharp decline in exploration expenditure in WA that you indicated peaked in 1997. What consequences has this meant for the city of Kalgoorlie-Boulder as a community?

**Mr Thomson**—The first consequence is the fact that there has been a reduction in the number of people who live in the city. Probably a more significant effect is the fact that the mining industry in this region has over many years been a very good contributor to the community, and it has been increasingly difficult for the mining industry to continue to provide the same level of support for the community as it did a few years ago.

**Mr HAASE**—Thank you for being here, Graham. I would like you to tell us to the best of your knowledge about the way in which we can address the complaint of mining companies that, without the availability of the fly-in fly-out system, they would have no employees, because there is such a limited number of qualified people. Accepting that mining is a very technical business these days and that highly qualified miners, engineers and professionals generally refuse to live away from the coastal fringe, the suggestion I make to government is that the introduction of an increased taxation zone rebate and the restriction of the fly-in fly-out system—by bringing people back to the bush and by the removal of the taxation zone rebate for those who fly in and fly out—will result in the collapse of the mining industry because there will be no qualified employees available. Would you tell us to the best of your knowledge how we might counter that argument.

**Mr Thomson**—The first thing I would say is that both native title and zone allowance are matters that can be quite simply addressed by changing the legislation. If it is the will of the government to change it, it can be fixed. The second point I would make relates specifically to zone allowance. I first went to the Pilbara some 30 years ago when the zone allowance was a meaningful figure. It was an incentive for me, for my wife and for my family to physically live within the immediate area of the mining company that I was working for. It was the same for the engineers, it was the same for the specialist services and it was the same for the doctors—we had no shortage of doctors, nurses, dentists or health practitioners of any sort, because of the tax regime in place at the time. With the current zone tax rebate being, as I describe it, a pittance, there is no incentive for these people to live in the scrub. The result is that people have drifted to the city. A lot of those people end up on the Commonwealth payroll as welfare recipients. They could have stayed in the scrub and been positive contributors had the zone rebate been at a level that made it worth their while to stay. I am not sure what else I can say. It is a pretty simple set of circumstances: the incentive to live in the scrub is not what the incentive should be. If we want to seriously develop regional, rural and outback Australia, we have to put those incentives back in place.

**Mr HAASE**—I bring you back to the point that we are seeing an apparent phobia in suburban populations about the ‘Great Divide’, about coming out into the bush. The mining company employers believe that there simply is not a sufficient body of qualified people prepared to work in the bush, so dangling any carrot, I am told, will not bring these people back to the bush, will not overcome their phobia, regardless of what financial model of tax incentive there is.

**Mr Thomson**—Mr Haase, I would put it to you that that simply is not true. It would not be hard to gather sufficient evidence to back up a case to show that there are sufficient numbers of engineers and professional people who are prepared to live in the scrub if the incentive is there

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for them. I do not buy the argument, whether it is put by the mining industry or anyone else, that people simply do not want to live in the bush. I do not think that is true. There are a lot of people currently living in Perth who are flying in and out from operations as a result of the fact that that is the very best alternative put to them under the current tax regime.

**Mr HAASE**—Do you think those people flying in and out and who receive a pro rata of the pittance should be entitled to receive a pro rata taxation zone rebate simply because they work in the bush?

**Mr Thomson**—I would suggest that the zone rebate should apply only to those people who are in the bush for 70 or 80 per cent of their time, not 50 per cent or whatever the fly-in fly-out arrangement is. The zone rebate should apply to people who are permanent residents of the bush—not fly-in fly-out.

**Mr TICEHURST**—You mentioned the need for government to look for new and innovative ways to develop infrastructure in regional areas. Do you have any ideas as to how that might be done?

**Mr Thomson**—Here we are alluding to public-private partnerships, the buzz words in government at the moment. We believe they are a very real opportunity to develop major infrastructure in outback Australia and in this mining industry area specifically. You may be aware that we have a fairly serious water problem as a result of the famous C.Y. O'Connor scheme being drawn on to its absolute maximum. State and federal governments need to be open to approaches for public-private partnerships to develop alternative sources of water, as an example.

**Mr TICEHURST**—Are you aware of the Department of Transport and Regional Services inquiry looking at direct funding into local government?

**Mr Thomson**—No.

**Mr TICEHURST**—There is an inquiry now taking submissions on direct funding by federal government into local government for various types of projects.

**Mr Thomson**—Thank you.

**Mr CAMERON THOMPSON**—In your experience, how much has the value of the zone rebate declined in terms of its value in your pocket? You said that it had attracted you out here in the first place.

**Mr Thomson**—I do not have the figures with me, but the equivalent in today's dollar terms of the zone rebate when it was introduced is \$15,000.

**Mr CAMERON THOMPSON**—Obviously it has declined quite a lot since then.

**Mr Thomson**—What I am saying is that the zone rebate amount as it applied when it was introduced is equivalent in today's dollars to \$15,000.

**Mr CAMERON THOMPSON**—Why do you fasten on that as being a key?

**Mr Thomson**—Firstly, it is measurable; secondly, it is an area that has obviously declined; and, thirdly, it is an area where government has previously been able to offer assistance in a real and meaningful way to encourage development in outback Australia. As I said earlier, one of the problems we have had is that governments have indicated that they cannot have a zone rebate because it discriminates against the people on the coast. We are saying that by not having a zone rebate you are discriminating against the people in inland Australia. We would be prepared not to have a zone rebate as long as we got every other service that is available on the coast for the same price as the people on the coast get it, and as long as we got recompensed for the cost of travel and other expenses when we need to send our families to other places for education or health.

**Mr CAMERON THOMPSON**—What has happened with the population? You have talked about a 60 per cent decline in economic exploration expenditure. What has happened in relation to the population of the town? Has it declined as well?

**Mr Thomson**—It has.

**Mr CAMERON THOMPSON**—By how much?

**Mr Thomson**—By several thousand people.

**Mr CAMERON THOMPSON**—Is that completely as a result of these exploration activities?

**Mr Thomson**—It is completely as a result of the fact that you cannot get access to the land, and I am sure the people from Drillex will amplify what the effect of that has been later today. Drilling companies who are employed by the first line people to go out and look for greenfield sites are being forced to go offshore. It is pretty simple stuff. If they cannot get work locally and if they cannot get access to the land, the end result is that they will go wherever they have to go in the world in order to survive as responsible businesses.

**Mr CAMERON THOMPSON**—We have heard again and again about the tendency now for people to look for brownfield sites rather than greenfield sites. I would have thought that would be a bit of an advantage here, given that there would be lots of existing infrastructure in place. So rather than go out too far from town, that mind-set among the miners might mean this area might become a bit of a hub of activity. Can you reflect on that?

**Mr Thomson**—The problem with the notion of concentrating on brownfield sites is that you run out of them and eventually the mining industry will shut, because if you are only going to mine and extend current brownfield sites, you will get to the stage where the mining industry will come to an absolute halt. You must have an ongoing program for greenfield exploration, and that is the area where native title is causing the most problem. If you have not got that, you have not got a forward block of future mine development.

**Mr CAMERON THOMPSON**—I agree with you completely, and we have had plenty of evidence to that effect. I was just wondering whether, at the moment, your end of the *Titanic*

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was not sinking as quickly as some of the other bits of the vessel, because there would be more activity here in relation to brownfield sites. Do you catch my meaning?

**Mr Thomson**—I think it would be pertinent to say that a bad day in Kalgoorlie is a good day anywhere else when it comes to mining or any other activity. But, even in Kalgoorlie, we are aware of the fact that we have to look after our long-term development and investment.

**Mr CAMERON THOMPSON**—You have supported the submission from the Western Australian Chamber of Minerals and Energy in relation to governments contributing more to infrastructure. All other things aside, that lack of infrastructure has not stopped people coming in here in the past. The question of whether or not there would be schools, for example, has not stopped people coming out bush if there is a quid to be made. The submission that the chamber of minerals is putting forward is telling governments that, in order to get better mining, we have to do things like improve education for Aboriginal students in remote communities. That seems like a pretty roundabout way for us to be going about it, if you know what I mean. I can accept what you are talking about with zone rebates—I can look at that sort of thing—but I think taking it that far seems a bit like missing the obvious. What would you say about that?

**Mr Thomson**—I would disagree with that. The reason I disagree with it is that, under the negotiation process between the mining companies and the Indigenous people, they are being called on every day to provide social welfare programs and infrastructure, which quite rightly is the province of state or federal governments. The mining industry need to do whatever the mining industry need to do in order that they (a) continue their operation and (b) have the opportunity to expand their operation. So they are caught between a rock and a hard place. Their interest is mining and they need to go forward with the mining bit. In order to do that at the moment, it means that on one side they have to look at the social welfare program and on the other side they have to look at infrastructure, housing, the setting up of inland universities and all sorts of stuff, which is the province and responsibility of state and federal governments.

**CHAIR**—Do we have any other questions?

**Mr HAASE**—Because of the constraints of time, I think perhaps not.

**CHAIR**—Graham, thank you for attending today.

[9.20 a.m.]

**BURT, Mr Sheldon Vaughan Paull, Chief Executive Officer, Drillex**

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

**Mr Burt**—Thank you for the opportunity to attend today's hearing on resource exploration impediments. Our family owned and operated exploration company, Drillex, was incorporated in WA in 1978 and is one of the leading reverse circulation exploration drilling companies in Australia. We employ approximately 80 Perth and field based staff, supervisors and drill crew, and our current Australian operations reach from here in Kalgoorlie through to the Pilbara, the Kimberley and into the Northern Territory and South Australia. We also have operations in Guinea, West Africa.

Exploration in Western Australia peaked in 1997, with the expenditure of almost \$A1 billion. In 2001, that figure had slumped to \$409 million. Total drilling metres are down to approximately 800,000 per annum compared to 4.2 million in 1997. This drop in exploration expenditure has had a significant effect on the drilling industry and its related services industries. Our organisation has had a large turnover of experienced field staff. It will take several years to replace these staff. The uncertainty surrounding the industry was foremost in the decision-making process. Added to staffing issues has been the introduction of new taxes and safety regulations and the cost of confirmation of these. We have not manufactured a new rig for greenfield exploration since 1998 and, as a consequence, we have shut down our rig manufacturing department and retrenched the associated staff. We have slashed our capital expenditure and reduced our Perth staff from approximately 22 people to 16 and our field based staff from 100 to approximately 65—a loss of 40-odd jobs. Our gross income from 1997 to 2001 fell by some 45 per cent. However, our costs for this period have increased.

No business could sustain a drop in revenue of some 45 per cent in the medium to long term without significant changes to its operations. As a consequence, Drillex have sourced and undertaken contracts in South-East Asia and West Africa. While never our intention to drill outside of Australia, we have been forced to do so in order to secure significant and profitable drilling contracts. These international contracts have been with some of the world's largest mining houses and have been very successful in terms of discovery of mineralisation—in particular for the West African operation, where significant mineralisation has been uncovered. While this bodes well for Drillex and our employees, there is obviously no tangible benefit for Western Australia. It must be noted that this expertise in drilling techniques is going overseas. We are assisting these mining houses to make new discoveries in other parts of the world and not Australia.

We are not deliberately unpatriotic. However, with such a capital intensive business, we are left with no alternative. The best contracts are now overseas. The region of West Africa, for example, is becoming more politically stable and its nations are becoming more proactive in terms of attracting mining companies to the region to explore. These companies are offered government incentives, there is the promise of cheap labour and there are the social and economic benefits for a Third World nation—a win-win for all parties concerned. In Australia,

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it seems to be: what hurdles can we throw in front of the mining industry? Arguments surrounding the diesel fuel rebate and land access and the native title impasse suggest we are making it as difficult as possible for these companies. I can tell you that they are taking their money elsewhere, and this should be alarming for all Australians.

The resources sector is by far the most important sector for Australia in terms of export earnings, accounting for some 34 per cent of this country's exports. For the long-term benefit of our state and Australia, the government must formulise and establish incentives for greenfield exploration. The current impasse is not sustainable in the long term and will be very detrimental to our industry—something we all cannot afford.

**CHAIR**—What percentage of your rigs are involved in greenfield site work in Australia at present?

**Mr Burt**—Less than 20 per cent.

**CHAIR**—What was that, say, five years ago?

**Mr Burt**—Eighty per cent.

**Mr HAASE**—Mr Burt, you have not in your submission, as far as I can see, made any comment about the fly-in fly-out phenomenon. I am sure you would be well aware of the transformation of residential habits of people in the mining industry since 1984, when FBT was first introduced by the Labor Party. Where do your drilling crews come from? Are they flying in and flying out? Are they resident in Kalgoorlie or in the locale where the rig is working? Can you discuss that generally? What is the state of affairs currently, and why is it so?

**Mr Burt**—All our staff are Perth based. Even in the West African operation the staff are Perth based, so when they are due for leave we fly them back to Perth. In the Kalgoorlie operation that we have here in the Super Pit, approximately 50 per cent of our staff are based here. We give them a little assistance to relocate and for daily living expenses and things like that. Of course that all attracts FBT but, in order to make it attractive for the right guys to relocate here with their families and undertake the job, that is a necessary ask on our part. Everybody else, without exception—all the other drill crews, wherever they are located—are commuting to and from Perth.

**Mr HAASE**—That is very unfortunate, isn't it? You perhaps heard the evidence by Mr Thomson about the need to encourage population back to our regional centres.

**Mr Burt**—Sure.

**Mr HAASE**—You are paying a taxation zone rebate pro rata to your fly-in fly-out workers, are you?

**Mr Burt**—Yes, I believe we are.

**Mr HAASE**—There is a great body of argument that says that that is somehow morally corrupt—that it is a taxation zone rebate originally introduced to compensate for the rigours of

living in remote Australia and now it is being paid on a pro rata basis for people who are living in Cottesloe, for instance. Do you believe that you could not possibly get employees, even if you gave a financial incentive or if the government allowed a taxation zone rebate? Tell me more about the current thoughts about living away from coastal Australia.

**Mr Burt**—We find it very hard. I know a lot of our employees find it very hard living away from home, whatever roster they may be on—whether it be two weeks on and one week off or, in the case of Africa, six weeks on and three weeks off. Without exception, everybody with a family finds it very tough. With the Kalgoorlie operation there was a lot of enthusiasm for the guys to be able to move up here with their families. We had guys that moved to this job here who were perhaps on a ‘six and two’ operation elsewhere and going back to Perth but were happy to relocate to Kalgoorlie with their families so that they were home every night, albeit they were living away from Perth. The desire to remain with their families, wherever that may be, was very strong—in our experience, anyway.

**Mr HAASE**—But not strong enough for you to get an avalanche of prospective employees to come and live—

**Mr Burt**—Exactly right. It is fair to say we were not inundated with applications. That is for sure.

**Mr HAASE**—It is a huge dilemma, isn’t it?

**Mr Burt**—Yes.

**Mr HAASE**—Would you care to comment about some of the possible family breakdowns that result from the practice of fly-in fly-out? Do you have any evidence that you might share with us?

**Mr Burt**—Not a great deal. I know of a handful of cases where guys have worked for us for many years on a fly-in fly-out basis and have left the organisation to undertake work elsewhere—perhaps pick up a job with a company in Perth full time—and it is when they have moved back to live at home after being in a fly-in fly-out arrangement for 10 or 15 years that the problem has arisen. All of a sudden, Dad is home again full time. That is where I have come across—surprisingly—a handful of breakdowns in marriages.

**Mr HAASE**—So the family is perhaps saying, ‘Who are you and what are you doing here?’

**Mr Burt**—Yes, I think so. And I think that mum and dad have perhaps grown apart somewhat.

**Mr HAASE**—It is very sad, isn’t it.

**Mr Burt**—Yes. And very difficult.

**Mr HAASE**—I think perhaps governments in general should be more aware of those downsides of flying in and flying out.

**Mr Burt**—Absolutely.

**Mr HAASE**—I think I have had my fair time; thank you.

**Mr TICEHURST**—You talk about a dramatic downturn in your business operations over the last few years. What do you attribute as the major cause of that?

**Mr Burt**—It probably started with the contraction in commodity prices and gold in general in 1997. It is a cyclical business: ups and downs in the turning of the circle are not uncommon. But this has become very protracted. The gold price, in Australian dollar terms, is now very strong. But we are hardly being run over in the rush to get rigs back out there. Certainly the level of activity has increased, but it is not even a fraction of where it was, say, five years ago.

**Mr TICEHURST**—We had some evidence in Darwin from one particular fellow who reckoned that the amount of minerals in Australia is infinite. His reason for that response was that as technologies improve they are able to better process the tailings that are left from previous years. Do you find that that has an effect on your business?

**Mr Burt**—Not significantly, no.

**Mr TICEHURST**—You also mentioned problems with OH&S and the costs associated with that. Why do you think the costs have increased? Is it because of new requirements, or is there a history of problems in the industry?

**Mr Burt**—Yes, it is fair to say that in the past there have been problems with health and safety in the drilling industry. But related services companies have designed and manufactured safer equipment, which has eliminated most of the manual handling. These are very beneficial to our organisation in some cases. One particular part is worth \$100,000 per rig. When you have 11 rigs, that is \$1.1 million that you do not have. But if you do not supply your rigs with this equipment then the client sitting is going to say, 'These two guys have got it; you haven't. We're going to pick one of these two.' It has been very difficult. We have had to try and grow the business during a massive contraction, and it has been very difficult.

**Mr TICEHURST**—So your cost really has been associated with adding safety equipment to rigs—is that correct?

**Mr Burt**—Yes, that is correct. Things like automated rod handling, fire suppression units, hydraulic slips and noise suppression are all fairly straightforward now, but it has taken a lot of time and money to get to this level. Perhaps later today when we have the inspection of the Super Pit I will get the opportunity to point out some of these to the committee.

**Mr TICEHURST**—And is that same level of equipment needed, say, in your offshore operations?

**Mr Burt**—Yes, it is.

**Mr CAMERON THOMPSON**—We have heard again and again—and I suppose your submission reflects it a bit—concerns about native title aspects and those things that are at the

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core of the problem in relation to access to land. We have heard from the other side of it—from Aboriginal representative groups—that there is an inadequate number of jobs available to them and to their people. Does your company provide any Aboriginal employment? What is your reaction to that kind of assertion? Do you think there needs to be more done by companies to provide that sort of employment?

**Mr Burt**—In answer to your first question, we are an equal opportunity employer. Anybody who would like a job with Drillex and who fits the criteria will get a job. As far as native title is concerned, we do not have face-to-face dealings on this particular issue. Perhaps the mining companies do, for obvious reasons, if we are subcontracting to them. We may have a situation where, at the end of the year's drilling, a geologist will say, 'Next year we've got four areas to hopefully drill. There are areas A and C, which are confirmed; with B, we are almost there with native title; and D is all up in the air.' That will equate to six months drilling instead of 12 months drilling. I will then turn to our experienced drill crews and say, 'We've got six months confirmed and six months up in the air.' A lot of them will say, 'I've just bought the house and the car, and the second kid's been born. I need a bit more assurance than that.' A lot of these guys are qualified in other areas—in the building industry or other related industries. Especially if there has been a housing boom—as there has in WA—they will move back to full-time employment in Perth on good rates. So we are unsure how much work is available, and perhaps we will have a loss of senior staff as a consequence.

**Mr CAMERON THOMPSON**—I understand that. I was not saying that you were not an equal opportunity employer. What I am on about is: do you regard it as an important priority for the mining industry and companies such as yours to actively get out and try and encourage more Aboriginal employment through some sort of proactive program?

**Mr Burt**—Yes, absolutely, I do. I think that that would go a long way. I know that one particular client we work for in the Kimberley region has a very proactive relationship with traditional owners up there. There are certainly several of them employed with this company and it all works very well. I can only take my hat off to them.

**Mr CAMERON THOMPSON**—Do you think that by doing that he is getting a better result in terms of more access to land and a better outcome, or is it really not getting him anywhere?

**Mr Burt**—I could not give you specifics but, on the face of it, from what I see on my visits and dealings with our client up there, I would say it does have a positive effect, but to what degree I could not tell you.

**Mr CAMERON THOMPSON**—If you are concerned about the impact of native title like that, would you be interested in setting about putting in some kind of program like that and letting it be known that you are actively promoting Aboriginal employment? Is that going to help, for example, to get that six months that is up in the air for you and to make it more certain, because of access to title that you might otherwise not have?

**Mr Burt**—No, it would not make any difference because it is the mining company that has the direct relationship. We do not have any dealings whatsoever in that regard. The mining company may say to us that they need us to formulate a policy for employment of Indigenous people—which we can do and which we can show them—but I could not say that that would make any difference.

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**Mr CAMERON THOMPSON**—You would have heard Mr Thomson saying earlier, in his submission on behalf of the City of Kalgoorlie-Boulder, that governments need to put more effort into trying to provide better resources and infrastructure in remote and Aboriginal communities particularly to get over this perception that they do not create employment. Do you think it really is a government responsibility to get in and do that, even when obviously governments are being asked to provide more than they think is appropriate in a lot of cases? Do you think that would pay off?

**Mr Burt**—Yes, I believe it would. Any more that anyone can do is going to benefit the situation, because at the moment it appears to me to be well and truly bogged down. Anything extra that is put forward or offered could only be of benefit.

**Mr CAMERON THOMPSON**—How close to the core of the problem do you think these issues that I am talking to you about are? Or is there something else out there; for example, the tax issues? Do you think they are bigger?

**Mr Burt**—I think they definitely all combine and in our particular case that includes access to capital and things like that.

**CHAIR**—How great an issue is the access to capital?

**Mr Burt**—I perceive it to be, in our particular case, a very big issue. We are a privately owned company. I reflect back to a few years ago, to 1998, when our particular bank made the decision to rid itself of resource based or related mining industry businesses. It made a conscious effort to rid itself of businesses like those, of which we were one. Since then we have been playing catch-up. If you turn around and say, 'We would like finance of a million dollars,' the banks would say, 'Sure, what would you like to do?' We would answer, 'Well, we would like to put rod handlers on each of our drill rigs,' and they would reply, 'Well, what is a rod handler?' You try to explain to them what it is and what the requirement is and things like that—

**CHAIR**—So they reckon it is a bit hard to take a mortgage over a rod handler?

**Mr Burt**—That is exactly right.

**CHAIR**—You are saying that, in your particular case, you are finding it very difficult to get financing simply because the banks have now turned off speculative mining operations?

**Mr Burt**—That is correct, certainly for people like us in the mining services sector.

**Mr CAMERON THOMPSON**—In relation to that perception that the banks are turning off that sort of speculative mining activity, there is another thing about whether or not, in general, banks have the skills, pay attention to the industry or have the direct understanding of the industry that they need to have. There is also the question of whether they, in not having enough expertise and a proper understanding of what is a risk and what is not a risk, just lump everything into the too-hard basket and do not pass it on. Would you care to comment on that? Rather than just saying, in general, that they are not interested in industry, is it just purely that they lack the sort of expertise they need?

**Mr Burt**—I would agree with that absolutely. In our particular case, we made a conscious effort to take the direct business manager and the state manager from our bank on a field trip every year so that they were up to date with exactly what we were doing and what was happening with operations. But, at the end of the day, when we put forward our submission for increased funding to handle the downturn, the decision was made by somebody in Melbourne who would not know a drill rig if it ran him over. So, although we had a terrific relationship with our direct manager and the state manager, the decision for extra credit was taken right out of their hands. These guys had a full understanding of our business and how it operated. They visited mines. Our clients were terrific in showing them around and things like that. But the view was: ‘That decision rests with credit, and credit lives in Melbourne.’ They set the high-jump bar at whatever it is and, regardless, if you do not get to the bar you miss out. If you get over, well, good luck to you.

**Mr CAMERON THOMPSON**—Once upon a time, there were stock exchanges in places like this.

**Mr Burt**—Yes, exactly.

**CHAIR**—On that particular matter, I guess the problem could be partly solved by the finance risk analysis people within the banks if, on a yearly basis, they at least visited some of the areas that they are in partial control of. I guess others in your situation got the same treatment from other banks. Is that correct?

**Mr Burt**—Yes. I know of a couple of others, and people that supply equipment specifically to the drilling industry were in exactly the same position.

**CHAIR**—With the onset of the downturn, was it that those in the industry did not want to appreciate or face up to the rapid onset of that downturn? At least someone from afar might have a different approach. I am not taking their side; I am just trying to work out if there was a slightly different approach. I congratulate you on at least keeping your local manager and your state manager informed of what your company operations do. In my view, the downfall of many in small to medium business is that they do not apprise their bank manager, or the senior people, of the nature of their operations. Is it the case that the downturn was on and that the industry did not want to face it? At least someone from afar could say, ‘This is going to be a fairly rough period. If we tighten the screws now, at least people will manage during a tight period.’ Is that a fair assessment or not?

**Mr Burt**—In our particular case, we were with that bank for 20 years and we had clear evidence of the drilling industry being cyclical in nature over that 20 years. The bank had seen good times and bad times right through that period. They had enjoyed taking our fees when times were good and then, all of a sudden, when we said we needed a little bit more funding that was adequately covered with assets under their terms of lending, we were more than surprised that they were prepared to let a \$20 million business and 120 employees swing in the breeze, so to speak, at just the drop of a hat. It was an absolute flick of a switch—just like that. I thought that it was very unfair and showed scant regard for us as a long-term customer and provider of employment and benefits for everybody.

**CHAIR**—You obviously changed banks?

**Mr Burt**—We have changed banks a couple of times since then.

**Mr CAMERON THOMPSON**—In relation to that, I have a concern that by withdrawing the scrutiny from the people who locally know you and identify and understand what you are doing—by taking it to a remote area like that—then, instead of assessing you in relation to your business expertise and your capability and the opportunities that you face, the decisions that they are making are on an across-the-board basis. Instead of focusing on you as a good business manager, they are treating you just the same as the bloke down the road who is a total incompetent. This does not just affect the mining industry. Given that you are operating in remote areas, and the unwillingness of banks even to go out there and look, it probably makes it 10 times worse.

**Mr Burt**—Exactly. Overnight, we went from being the blue-eyed boys to being out on the street, because somebody had made a decision elsewhere that, ‘No, we’re going to move out of resources and we’re going to go into IT.’ I guess you could ask: where has all their money gone from that?

**Mr CAMERON THOMPSON**—That is another good point. We have heard quite a bit of evidence about the amount of capital that fled out of the mining sphere and ran off into IT.

**Mr Burt**—Absolutely.

**Mr CAMERON THOMPSON**—One of the comments we heard yesterday from the Stock Exchange is the question mark about whether, now that IT has turned out to be a bubble and it has gone down the tube, the money is going to start coming back. They were questioning whether that is possible. What is your view about that?

**Mr Burt**—At the end of the day, a mining company can give you a bar of gold that is worth something. I think with IT, and things like that, it was just ideas and all smoke and mirrors. I think the mining industry is something that is solid, and it produces something that you can hold in your hand that is worth something. It is as basic as that. I think that the normal person will always relate to that. We will always have the edge. It will come and go—the industry has a cyclical nature—but, at the end of the day, people will always go and buy a gold ring or gold jewellery or something like that because it is something they can touch and feel, and it will always be worth something. But a lot of money disappeared.

**Mr HAASE**—I want to follow up, Mr Burt, on something that came out in Mr Ticehurst’s questioning. You were talking about the problems of increased cost of safety gear.

**Mr Burt**—Yes.

**Mr HAASE**—It dawned on me that one might assume that, if your costs have increased in provision of safety gear for employees, your insurance may have reduced pro rata. I would like you to explain to me in detail that that is possibly not the case, so that we have that on the record.

**Mr Burt**—To answer the question quickly, the insurance companies said, ‘If you put all this equipment on your rigs, there will not be any increase in premiums.’ We tried different ways of transporting our drilling equipment where our guys were not driving them; they were being

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shipped by professional drivers from transport companies. We made a conscious decision across the board to do that and wanted to find out whether that would help us with our motor vehicle insurance. They said, 'No, you just won't get any increases this year.' Where we have been able to save money on insurance is by working damn hard on workers compensation. If we had not put the time and effort into workers compensation action that we have, then our premiums would be totally out of control. We have had to work damn hard just to keep them where they are, with little or no reductions.

**Mr HAASE**—So would it be fair to say that your costs overall per annum have increased?

**Mr Burt**—Yes, they have increased, but I could not tell you by how much in percentage terms. Certainly they have increased significantly.

**Mr HAASE**—The other thing that I would like to pursue for a moment is that during this inquiry we have had very strong propositions put to us about the attractiveness of a flowthrough share arrangement. Even though the drilling industry in this area peaked in about 1997, I believe, and we have had a downturn since, would you like to assure this committee in evidence that any capital flow back to junior explorers would put you back on country again and therefore increase your cash flow?

**Mr Burt**—Absolutely, Mr Haase. I think that anything that can be done in that area, any incentive whatsoever, has got to make it easier for the juniors to part with money to the drilling companies to start looking for the new Super Pits, the new Bronzewings. As I said in my opening address, we seem to be throwing up as many hurdles as we can to stop these sorts of things happening when other parts of the world are pulling them all down and saying to the mining companies, 'What would you like? What can we do for you? What would make it easy for you to bring a team of surveyors and geologists in here to look for something?'

**Mr HAASE**—Because they would like to have, in the future, the wealth opportunities that Australia has enjoyed in the past with the exploration that has been carried out here.

**Mr Burt**—Absolutely.

**Mr HAASE**—I note that in your submission there is a graph that shows the input of the mineral sector into New South Wales as being \$2.135 billion and there is this statement:

A new major ore body such as a new Broken Hill would take Australia from 6th to 5th wealthiest nation.

That quote is attributed to Dr Bruce Hobbs, CSIRO, in 2001. Would you like to elaborate on that?

**Mr Burt**—The discovery of a new Broken Hill would obviously be of enormous benefit to the country and would be major news. But, while we are moving around Australia doing essentially brownfield drilling, that is not going to happen in the short or medium term. Although the drilling has slowed down in the last five years, there is one thing that has not slowed down and that is the number of haulpacks pulling dirt out of the ground on the discoveries that were made in the early 1990s. They have been running absolutely flat strap. In many cases we get calls where there has been no drilling at a place for six months and all of a sudden there is a mad panic and two rigs are needed as quickly as possible because the ore is

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running out. The mills and the haulpacks have not slowed down. Unless we can get some incentive back into greenfield exploration to get these juniors out looking to find the big discovery so that the majors will come along and buy it from them and set up a big mine, these people are just going to run out of ore. Somewhere along the line this is all going to come to a head.

**CHAIR**—You seem to be indicating that it is vital to the industry that the juniors are back out there whereas, in certain circumstances, the majors giving evidence before this committee almost indicate that they could do it themselves. In your view, with respect to new greenfield discoveries, how important is it to get juniors back out there as opposed to the majors?

**Mr Burt**—I think the track record and the level of success of junior explorers in the past and how they have progressed from there speak for themselves. For argument's sake, take the example of Eagle Mining Corp., for which we undertook work 50 kilometres north-east of Wiluna. We went out there for two weeks work and literally seven years on we are still out there. That mine became the Nimary goldmine and turned into the Jundee goldmine and it is now owned by the world's largest goldmining company. A big company did not find it to start with; it was a very small company that found it.

**CHAIR**—Is that common?

**Mr Burt**—I think that is common. You could say that about the Bronzewing goldmine, which was found by Great Central Mines. It went on to big things but started off life as a small company. There are several other examples that do not come to mind at the moment, but certainly if the majors—

**CHAIR**—So in your view it is vital that the juniors get back out there—

**Mr Burt**—It is absolutely imperative.

**CHAIR**—and that we look at what incentives need to be put in place to have that happen.

**Mr Burt**—Anything that can be done in terms of tax flowthrough, share flowthrough—that is one area. Taxation and shares are not my strong point but anything that can be done in that area would obviously benefit.

**CHAIR**—But at this stage of the game their access to capital is the major limiting factor. Is that true?

**Mr Burt**—Yes, I would say that is true, and then land access.

**CHAIR**—Thank you for your attendance.

**Proceedings suspended from 9.54 a.m. to 10.10 a.m.**

**BUCHHORN, Mr Ian James, Managing Director, Heron Resources Ltd****CROOK, Mr David John, Exploration Manager, Heron Resources Ltd**

**CHAIR**—I welcome representatives of Heron Resources Ltd. I invite you to make a short opening statement.

**Mr Buchhorn**—We are here today because I received a call from Fred Cook. He was talking about impediments to the minerals exploration industry, and my comment was that Heron really does not see much in the way of impediments—we find it a great industry to work in. Fred said that was a bit of an unusual response and he encouraged us to put in a submission. When we have problems in the industry, we find it is usually just a matter of getting to know the ropes. Native title issues, which David will be addressing as they are his speciality, are an example. Where environmental issues have been involved, it has just been a matter of us making contact with the relevant department. We can always work our way through things.

I will quickly go through the terms of reference. Regarding assessment of resource endowment, you can take it from me that Australia is a great place to explore. We are incredibly well endowed with what I call ‘bulk tonnage’ style commodities. Those include iron ore, coal, nickel laterite and those sorts of thing. Australia is a great place, and one of the main reasons for that is the absence of sovereign risk and the certainty of mineral title. We have a very competitive and aggressive industry, and, from my point of view, Australia is very well placed in the minerals resource sector.

Regarding the terms of reference relating to the role of small companies, my comments will be made in the context of the way Heron operates. Obviously we are out there in a very tough industry, but our advantage is that we are small and lean, we are based in Kalgoorlie and we are in a geological province which probably has the second or third best gold endowment in the world and the second or third best nickel endowment. It is a great place to explore. Our overheads are very low. We concentrate very much on drilling, so probably 40 per cent of our annual budget goes into drilling. As a small company, we have gone down the normal route. We listed in August 1996, so we have been going about six years. We usually spend between \$2 million and \$3 million a year on exploration. In that time, we have raised something like \$13 million and virtually every cent of that goes into businesses and activities in Kalgoorlie-Boulder.

The main advantage for us as a small company is that the industry really favours us because of our ability to move very quickly indeed. I will give you one example. In November last year a small company that was very similar to Heron announced a discovery at Prominent Hill. That company is called Minotaur Resources Ltd. It is in South Australia. About two hours after that announcement, Heron had developed a geological model for that discovery, from a very brief ASX announcement by Minotaur. We had accessed various web sites—mainly the Primary Industry and Resources South Australia site—and we were able to sort out a very good geophysical model for the mineralisation: we worked out very quickly that it was related to gravity anomalies. Within a couple of days, we had pegged something like 16,000 square kilometres in the geological province that hosts Prominent Hill. Five months later, on 15 April this year, we sponsored a company called Avoca Resources Ltd. So that is an example of how

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the Australian mineral resources industry works: a discovery is made in South Australia and five months later a small Kalgoorlie based company has raised \$7 million to explore tenements acquired subsequent to that discovery.

The other thing is that, because Heron is a very small company, there are no regimented exploration guidelines. If Dave comes up with an idea or if someone has an idea talking over coffee, Dave can go out and peg it two hours later. So it is not as if there are any regimented exploration guidelines. With a large company you have certain thresholds: it has to be so many million ounces and it must have an internal rate of return—usually about 15 per cent and often with a de-escalating commodity price.

Essentially, Heron's stated aim is to find nickel laterites. There is a magnetic map of Australia on the wall in our office. Dave and I have made the observation that the magnetic pattern of the Kimberley in northern WA is very similar to the magnetic pattern of parts of South Australia. Since we started pegging, we now have something like 4½ thousand square kilometres of ground in the Kimberley. All that ground is pegged. We do not peg ground unless we have something that we can drill—which is mainly Dave's work. We have come up with a number of exploration targets in the Kimberley—things we can take a rig on tomorrow—which are 2,000 or 3,000 kilometres from where we are based. The way the industry works, it is very easy for Heron to access data.

I will now move on to impediments to accessing capital and, again, this is in the Heron context. In any two-, three- or four-year period, there will always be a time when the market likes your story. As a small explorer, we have to be able to act very quickly when that moment arises. I will very quickly give you our capital-raising history. We raised \$8 million in August 1996 and \$3.1 million in August 1999, which was on the back of a company called Centaur requiring access to one of our mineral resources which we discovered. The discovery was at a locality called Goongarrie, where we found a world-class nickel laterite resource. On the back of that discovery, we were able to raise another \$2.8 million in February 2001; last year in December we raised a further \$1 million and essentially that cemented our relationship with a very large national resource investor. The way the system works in Australia, if you have a good story, a good company and good ground and targets, you can always raise money. Often it will be at discounted prices, but that is the way the business goes.

I will now move on to what seems to upset a lot of people and that is native title. When we found Goongarrie we realised that we had a world-class discovery. It is an ore body that will one day be in production and, with any luck, that will be in the next year or so. The first thing we did was explore and that was easy. We drilled lots of holes and got lovely intersections. Then we discovered this thing about getting our mining leases granted. We found it a little bit difficult initially because there were so many claimant groups and trying to get them all in the room together was impossible. We found it so frustrating. Out of the blue, we came up with an idea of seeing whether the claimant groups would support a local charitable group. I will let Dave take up that story.

**Mr Crook**—The story concerning Heron and the process that is encapsulated in the term 'native title' with regard to exploration is that, as we all know, a large number of claimant groups have gradually been amalgamating. We interact with three large amalgamated groups: the Wonggatha, the central west and the central east. On top of those, there is another tier of

what we call clans or family groups, which are the Maduwongga, the Widji, the Njadu, the Narnobinya and people like that.

The first issue that we have with these is that the large combined groups have taken a more pragmatic route and have official representative bodies like, in particular, the Goldfields Land and Sea Council. We have found that particularly advantageous—no, that is the wrong word, but they facilitate the negotiations with the native title groups very well indeed. They have a balanced view that it is pointless for the native title people to think that they have an opportunity to make a lot of money or to have a position of leverage. They tell us what is reasonable and what is not reasonable.

While working with the Goldfields Land and Sea Council, certainly at the exploration level, a very good protocol has been established that provides for heritage protection, cultural matters and levels of sensitivity regarding the Aboriginal people. It works very well indeed. Where it seems to fall down is when the native title claimant groups elect not to use the representative bodies and align themselves with anthropologists. Their process then has to be self-funded. There certainly seem to be a lot more obstacles put in our way in that regard. With regard to accessing exploration ground, I feel quite strongly that there should be more use of the representative bodies by the native title claimant groups.

The same thing goes when we are negotiating for mining leases. My understanding of the act is that there is no provision for compensation at the moment. However, the first thing that happens when we sit down at the table is there will be a nice fat document of 30 or 40 pages and we will skip to page 7, which deals with compensation. I do not like to call it a game, but certainly everybody dances around the issues. Heritage is fine, archaeology is fine and things we can do together like providing work and support—all things that are very reasonable—are fine, but at the end of the day whether an agreement is going to work or not comes down to compensation and, as I said, there is no provision for compensation under the act.

At that point we can do one of two things. We can play the game out for the prescribed amount of time—which is six months of supervised negotiation—and then we can go to determination and no compensation will be paid or we can facilitate the grant of the tenements. I suppose that where the negotiation comes in is in working out how you disperse some kind of benefits to facilitate the grant of your mining tenements—and this is a very widespread practice. Once again, dealing with the Goldfields Land and Sea Council, who know they are skating on fairly thin ice when you are talking about this, we have been able to put into effect some very satisfactory community projects. We have started an education bursary worth \$20,000 a year for five years and we have put into place funding for a women and children's health care group here in town. As community citizens, we are very pleased to be able to do those sorts of thing.

What becomes very onerous, I think, is the fact that in several instances the community as a whole is totally discounted. All that is required is a cheque, and if we want to expedite things we write a cheque and the problem goes away. That solves nothing. It is an immediate fix for the current generation of people. The next generation are not necessarily provided for and nothing is solved other than a particular group getting a cash injection.

My submission is that the handling of compensation needs to be thought about very clearly now. My understanding is that if compensation is not provided for under the current act then that negotiated position should be decided then and there, the moment negotiations are stalled

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due solely to compensation issues, and should not need to progress any further. If the cultural issues, the heritage issues, the archaeological issues and the environmental issues are already accepted—and there are pretty wide and workable guidelines in the industry already in place—and things are just held up by the lack of compensation, then these matters should be determined straight away. That would certainly bring on mining leases a lot quicker. Once native title is determined and compensation is then payable, everybody certainly knows where they then stand, and that is just an economic factor that should be brought in at that point.

To summarise, we have in place very workable heritage, archaeological and environmental procedures and protocols that are widely held to be acceptable. When native title groups are represented by the representative bodies, things work very smoothly. As soon as the smaller clans with overlapping leases use unofficial people for representation, there are snags to getting exploration ground access. Once again, it is usually just money that solves these problems. It is not as if they are actual physical, cultural or ethnographic issues; it is just money. With mining leases, at the moment there is no provision for compensation under the act. Therefore, why should we be held up purely on compensation grounds when all other issues have already been resolved?

**Mr Buchhorn**—Native title is obviously one of the major aspects of your inquiry. I will now go briefly to the other terms of reference. We have a great system for environmental access. Most of our projects are on pastoral leases and we have a rule that we use the local pastoralist for all work which has an impact on the environment—all line clearing and getting drill sites ready. If you use the local pastoralist, he will drive around trees and try to do as little damage as possible. These days, all drill holes are sited with what is called a GPS. In the old days you needed line of sight for a surveyor to put in drill lines. That is obviously a thing of the past. The geologist walks around with the GPS and puts a peg in the ground and a bit of flagging through the trees, and the pastoralist just drives around the bushes and gets the rig to the necessary site.

We also have a very good working relationship with CALM and the environmental section of the mines department here in Kalgoorlie. We go out of our way to try to get people into the bush and, if they are doing field visits, we try to go along. We work very close to a park, so it is a bit of a sensitive area. For us that took a bit of getting used to, but it only took a few months and for Heron the environmental side has worked incredibly well. For Heron, the public provision of geoscientific data is manna from heaven. The databases on the Internet are just magnificent.

**Mr Crook**—When we started looking at South Australia we had a look at their web site, which is brilliant. The DMPR web site in Western Australia has come ahead in leaps and bounds over the last year. It is a fantastic resource and we would advocate all support for it. It has a long way to go yet, but it is coming along beautifully.

**Mr HAASE**—What is DMPR?

**Mr Buchhorn**—The Department of Minerals and Petroleum Resources. It is the mines department of Western Australia.

**Mr Crook**—It used to be the DME.

**Mr Buchhorn**—We are based in Kalgoorlie, and there is a Geological Survey of Western Australia office at the core library here in Kalgoorlie. We collaborate very closely with them.

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We have sponsored conferences with them and we use them for doing ore genesis studies on our nickel laterite ore body. Our office is about two minutes away, so if someone gets an idea they can hop in the car and go and look at their available open-file data and get their public information. Their geological maps are all digital now and it is just a fantastic system. It was probably initiated by Norman Moore more than anyone. While Norman was the Minister for Mines between 1996 and 2001, his contribution to mineral exploration in Western Australia was absolutely phenomenal. There has really been a sea change corresponding to his term as minister. He set the industry up exceptionally well.

Dave has gone through the relationship with Indigenous communities and it is covered in our annual report, so I will not go through that again. Essentially, we support this mob NTP who do children's health. I will not say it has opened doors, but it has got us a certain amount of respect amongst Indigenous communities. Most Aboriginal people know about Heron and they always give us a fair hearing, so being involved with NTP has been great for us.

Regarding contributions to regional development, this is where the role of government comes in. A great example is the Court government's facilitation of the Goldfields gas transmission—the natural gas pipeline coming down from the Pilbara. That was a masterstroke. It is that sort of infrastructure provision that creates new industry. With that pipeline, all of a sudden nickel laterites became viable. We have three laterite projects here. Two of them are nothing more than pilot plants. The Murrin Murrin is a world-class operation that has had teething problems—but all new operations of that type do have teething problems. So, because Richard Court had the foresight to put in the gas pipeline, this Kalgoorlie area has the potential to supply probably 30 per cent of the world's nickel. As a quick background, nickel comes in two forms. There is nickel sulfide, which involves deep underground mining, which is dangerous and has all sorts of environmental issues, and there are nickel laterites, the new era. Nickel laterites involve surface nickel mineralisation. That is all open cut, so it is very safe to mine. The only thing needed for the nickel laterites was low-cost energy, and the gas pipeline has delivered that.

Goldfields would obviously like to see a much more widespread rail network. The obvious things we would like to see would be an extension of the railhead from Leonora up to Mount Keith and over to Murrin Murrin and sealed roads. It goes without saying that Kalgoorlie should be linked to the Pilbara by a sealed road, just so that Kalgoorlie-Boulder could have the opportunity to develop as a transport hub servicing the Pilbara. Right now, mining equipment goes all the way from the Eastern States to Perth, gets off-loaded and then goes on a truck up to the Pilbara. It would be a lot more cost-effective if the materials of our industry could go directly from Kalgoorlie to the Pilbara. Regarding a sealed road linking Kalgoorlie to Alice Springs, again the beauty of working in the Goldfields is the infrastructure, the fact that, like today, we can drive up to Goongarrie in 60 or 70 minutes on a sealed road. These roads make exploration so much easier. Just a sealed road going up to Alice Springs—it is called the Outback Highway—that also—

**CHAIR**—If I could just stop you for a moment. This is contained in your submission. At this stage of the game, your short opening statement is going to run the clock out completely and the panel will not get a chance to enter into any discussion.

**Mr Buchhorn**—Okay, that is fine. We have got to the end anyway.

**CHAIR**—With that, I would ask my colleagues if there are any questions.

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**Mr HAASE**—Yes. Could you explain the initials NTP?

**Mr Buchhorn**—That is Ngunytyju Tjitji Pirni, an Aboriginal group.

**Mr HAASE**—Is it contained in your brochure?

**Mr Buchhorn**—Yes. That is all on the inside back cover. They are real pioneers in Indigenous paediatrics. They are an organisation respected in both Australia and the world.

**Mr HAASE**—Thank you for that. You mentioned that you have put in place a bursary. Could you elaborate a little more on that for me, please.

**Mr Crook**—It is an education bursary that has been made available to children of the central east claimant group and the central west claimant group. At their request, it is for high school children. They felt that university students were well enough catered for. The objective is to identify children who will be reasonably successful at school and who will be role models for the other children of the community. It is capped at \$3,000 per student per year, which means that we can give out up to seven of these bursaries a year. It has been running now for about a year.

**Mr HAASE**—Can you explain to me how the children are selected?

**Mr Crook**—They apply for it. We run advertisements through the newspaper. We have three independent trustees who are prominent education administrators around town—you would probably know one or two of them. Heron has taken very much a back seat, other than to be copied in on any correspondence. We have also provided administration services for the trust through Kalgoorlie Secretarial.

**Mr HAASE**—I would suggest that Indigenous people would be very happy and very grateful for that.

**Mr Crook**—We set it up at their behest. We were very pleased to be able to put something like that in place and my understanding is that they are very pleased.

**Mr HAASE**—With your forbearance, Chair, I would like to ask a question about the clan groups that you referred to—overlapping claimants and those groups whose relationship with the Goldfields Land and Sea Council, in your words, was not very harmonious and who are putting additional claims on your company for compensation. Can you perhaps flesh out a typical situation like that? I do not necessarily need names, but what might happen?

**Mr Crook**—What might happen is that Heron will peg a tenement in a specific area that is subject to multiple claims. An example, without being specific, might be the Balladonia area, which is covered by the Narnobinya, the Njadu and to some extent the Bullanbuck claimants. Of those, the Njadu are represented by the Goldfields Land and Sea Council. With the Goldfields Land and Sea Council we have an established environmental and cultural protocol. I would not like to say that it has formed the backbone of the one that the state has got around for discussion at the moment but it is a very similar one, whereby Heron or any exploration company can go out on existing tracks, can do reconnaissance work without leaving those existing tracks and can just get a feel for the lie of the land et cetera.

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The moment that we want to do any kind of ground-disturbing work at all we engage an independent anthropologist. We take out representatives of all the claimant groups and we do a heritage protection survey. That would then give us the right to go in and clear some grid lines and take some soil samples—fairly wide space stuff. If we find something of interest, we tend to use gridding as a means of controlling where we do work. So our grid lines are normally at right angles to the lie of the land. Along these grid lines we will take samples, we will drill and do things like that.

Ten years ago all of these grid lines would have been cleared by a bulldozer. These days, because of the GPS, we do not need to do that. With the cleared bulldozer lines you could then set up a survey. We put pegs in and we would find out where we are or keep control of where we are. These days, with the GPS, we just go to where we want to be and put in a peg and away we go. So we create a lot less damage. As soon as our grid lines are acquired for drilling, they have to be about three metres wide so that we can swing drill rods in safety. We have to drill sumps so that we do not kill plants with salty water and things like that.

As soon as those grid lines come within about 250 metres, which is still a fair way apart, we have undertaken to do an archaeological survey and, if anything is found, everybody is welcome out there on site. We discuss methods of protecting the cultural sites, the archaeological sites and the environmental sites. We believe that that gives everybody good fair warning, and everybody is involved. Some of the groups that are not represented by the representative body, the Goldfields Land and Sea Council, take it upon themselves to bring in a whole new set of rules.

**Mr HAASE**—What do you believe gives them the authority to do that? Why don't you simply say, 'We are dealing with the Goldfields Land and Sea Council; any complaint from you is irrelevant'? Why don't you do that?

**Mr Crook**—We can't do that. The process is that we will peg a tenement. The mines department will deem that the tenement is capable of being granted. It then goes to advertising under section 29 of the Native Title Act. During a three-month advertising period, anybody can register an objection. Section 29 contains words to the effect that the type of work that the explorer is going to do on the ground is not going to create a major impact. I cannot remember the exact words of the act, but basically the expedited procedure to grant can apply and they will just go ahead and grant the ground. As long as we abide by the act, we are right. Anybody can then object to that and say no, the expedited procedure does not exist. If they are an unregistered party they then have to go through the registration.

**Mr HAASE**—This is registration for native title—as a claimant?

**Mr Crook**—As a claimant.

**Mr HAASE**—But doesn't the Goldfields Land and Sea Council, the rep body, then say, 'No, you don't qualify as a claimant'?

**Mr Crook**—I think the Native Title Tribunal says that, but most of that has already happened. My reading, with some advice from different people, is that it is pretty unlikely that there will be any new registered groups. There might be amendments to the existing groups, but it is unlikely that there will be any new registered groups. So that is pretty much an irrelevance

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now. But the ones that are registered all have the right to object. If they do object, and these smaller groups are quite happy to object, we have to negotiate with them to a position where we can get our tenement granted.

**Mr HAASE**—And, typically, what are they looking for?

**Mr Crook**—The protocol that we put in place is fine by them. A recent proviso was ‘however, we want to do it before the tenement is granted’. I said, ‘This is out at Balladonia. We may never, ever go out there.’ It is a conceptual target. We want to be able to do some Landsat work, we want to do some magnetic imaging and we might want to do not so much gravity work, because that is going on the ground, but some palaeo-wind direction work to try to find out what the tidal patterns were 30 million years ago so that we can maybe model—

**Mr HAASE**—So you are not going to disrupt the ground?

**Mr Crook**—We are not going to disrupt anything.

**Mr HAASE**—But they do not understand that you are not and they cannot work out why you should not be paying them up front.

**Mr Crook**—We then said, ‘Okay, that’s fine.’ Bardi McFarlane was in on this. He is a fabulous bloke to have in on these, I should add. They said okay. After a fairly protracted time, we agreed to do a desktop study, which is just going through a register, talking to all the claimants and doing bits and pieces like that. I thought that would be fine, and I asked how much that would cost. They came out with an astronomical amount of money, so I did what you do when you go to get your car fixed.

**Mr HAASE**—So, for no disruption on the ground at all, you were still being asked to compensate for the right to do it in your office, virtually?

**Mr Crook**—I cannot put it in such fine words, but—

**Mr HAASE**—I wish you would.

**Mr Crook**—If it were your car, you would get three quotes. So I got my three quotes, and the going rate was about \$2,000 for such a piece of work. When I put it to the board that we were required to pay \$15,000 for a comparable piece of work, I thought we were being disadvantaged.

**Mr HAASE**—And does that stop the show completely?

**Mr Crook**—My logic for that was that the group was not using a representative body that was funded by the states. They are self-funding, which means that Heron was going to be funding them. So, to get back to my previous point, that is why we should be much stronger in advocating that these claimant groups should be represented by the state funded bodies. It creates some equanimity across the board, I think.

**Mr HAASE**—So you, as an explorer, would want certainty of native title and correct identification of the claimants before such time as you can work your way clearly through the exploration and negotiation process?

**Mr Crook**—And, even when they have been identified, that we all play by the same rules, which basically means using the states as the representative body.

**Mr HAASE**—So native title and the uncertainties at present are stopping you getting on ground and carrying out exploration that may give us a new Broken Hill?

**Mr Crook**—Yes.

**Mr TICEHURST**—I have a question on your ‘magic wand’ issues. You say in your submission that you would like the government to ‘provide the same tax incentives to mineral exploration as provided to olives, wine and blue gums’. What do you mean by that?

**Mr Buchhorn**—One associate of mine was working for a group that had a very large land holding in the Anketell area, and the group was trying to come up with a tax-effective scheme to raise exploration funds to explore there. At that time, Kalgoorlie was having a lot of problems with schemes such as wine, olives and blue gums. I know that this one group that my friend was working for had insurmountable problems and gave it away. That is all I know about it.

**Mr TICEHURST**—How do you think the government should reform the fringe benefits tax? That is an interesting issue.

**Mr Buchhorn**—When I first started work 30 years ago as a fieldie out in the bush here, I had all sorts of very realistic zone allowances that gave me a real incentive to be based out in the bush and go looking for minerals. With the fringe benefits tax, it is really fly-in fly-out—and that is a term that I did not know existed 10 years ago, for example. Fly-in fly-out is something that has definitely arisen with the fringe benefits tax. So really there just has to be an acceptance by government that you should provide someone with an airconditioned house out in places like Kalgoorlie and Leonora. If your employer does give you a few benefits, the government just has to accept that that is the name of the game. You have got to get people out in the bush. If you do not get people out in the bush, they are not going to find ore bodies.

**Mr Crook**—We are a very small company, and that might have something to do with it, but we have had real trouble attracting good professional people from Perth to Kalgoorlie. One of the simplest attractants for these people is money or a good package, so it could be as simple as that. I belong to one of the local Rotary clubs and we had a policeman speak to us quite recently who used a similar example. The local police force is now providing a better standard of accommodation here, and for the first time Kalgoorlie has applications from policemen wanting to come here. Rather than having to battle to get people here for six months at a time, they now have people who are prepared to stay here. Another little side issue is that we have a lot of working couples and there is a little bit of trouble with the kids around the school. If we had tax incentives such that—

**Mr Buchhorn**—Just so that there would be government assistance if the kids had to go to Perth to be educated. I love it in Kalgoorlie and I would live here under any conditions, but most people in Australia live on the seaboard and they think this place is a desert.

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**Mr Crook**—They think, ‘Why would you want to come here?’

**Mr Buchhorn**—Essentially, if you want exploration to happen in places like Kalgoorlie, there has to be some sort of incentive.

**Mr TICEHURST**—We need some ‘incentivation’ schemes.

**CHAIR**—With that, thank you very much, we are out of time. Thank you for appearing before the committee today.

[10.48 a.m.]

**REED, Mr David John, Executive Chairman, Reed Resources Ltd**

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

**Mr Reed**—I have a submission. Would it be in order for me to table that submission for the members?

**CHAIR**—Yes, thank you.

**Mr Reed**—I will provide a little background so that committee members get a feeling for where I am coming from. I was born and educated here in Kalgoorlie, as were my parents. I qualified as an accountant and I started working in my father's stockbroking firm locally in 1963. That firm started in Coolgardie in 1896 and he started working for it in 1930. I became a member of the Perth Stock Exchange in 1971. It became part of the Australian Stock Exchange. Until I retired last year I had been in the business of broking for 38 years. Eyres, Reed and Co. floated and supported more junior companies than any other broker in Australia. I have been a prospector and investor in the mining industry all my life, as was my father before me. My father was a life member of the local Amalgamated Prospectors and Leaseholders Association, and I was secretary. I was a founder of the famous Diggers and Dealers Forum in Kalgoorlie, which had its 10th anniversary this year. I am chairman for fundraising for the Australian Prospectors and Miners Hall of Fame. With that little introduction about myself, I will just run through this page, which shows the health of Australia's vital minerals industry. It should not be taken for granted—the price of neglect is too dear.

It is a mistake to assume that the minerals industry is robust and self-sustaining. Capital markets are not allocating sufficient capital to exploration, and profits from mining are not being fed back into exploration. As a consequence, the long-term stability of the industry is under threat. In the late 1990s and early 2000s the ability of the mining industry to sustain its activities in Australia has been steadily eroding. The evidence is in the exploration spending figures both in Australia and abroad. An explanation can be found in the share market returns from mining shares. The availability of capital for exploration spending is driven by the perceived competitiveness and the returns from exploration when compared with other available investments. Put simply, money goes where investors believe they can get the best returns.

Since 1982, the returns from mining and exploration have been worse than returns from most other asset classes. The ASX all-mining index at 918 points in October 2002 is 60 per cent higher than it was on average in 1983. It is also 35 per cent lower than its peak in 1987 and 10 per cent lower than it was for most of 1994. By contrast, the ASX all-industrials index is 500 per cent higher than it was in 1983, 60 per cent higher than the peak of 1987 and 60 per cent higher than its peak in 1994. As an investment class, mining and exploration was deserted for greener pastures in about 1998 and has since remained out of favour.

The first reaction of mining companies around the world has been to halt new developments, shrink exploration budgets and to concentrate on extracting maximum returns from existing

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mines and plants. The effect on output and even on oil reserves is not immediate as returns are squeezed from past expenditures. Consequently, there is a danger that casual observation of the industry would pass it with a clean bill of health when indeed urgent action is required. Investors will eventually return to mining and exploration when metal prices, once again, promise sufficient rewards to mining companies for finding and developing new projects. The problem is that while we wait for the market solution, the expertise and service base of the exploration sector is being dismantled. Australia became a world leader in exploration sciences and services by virtue of the money spent in the late 1980s to the mid-1990s. If this accumulated knowledge is dispersed to other industries it will be difficult to reassemble. Moreover, the process of exploration and development takes up to 10 years on average to bear economic fruit. Action now to reinvigorate exploration is a vital step in preparing the industry to respond to future price rises in terms of both exploration and development.

Minerals exploration needs assistance now. The core problem is the perception of poor returns from exploration by both the investors and mining companies. The solution is to directly improve returns from exploration expenditure. A flowthrough tax incentive is one mechanism that would fairly direct investment back into the minerals exploration industry. The basic principle of a flowthrough share tax incentive is to allow companies to renounce the tax benefit accrued from mineral exploration expenditures in favour of the investor who subscribed the funds. No new tax benefit needs to be issued and the sole cost to the government comes from the acceleration of claims on specified mineral exploration expenditure. Flowthrough shares would assist junior or non-taxpaying mineral exploration companies—a sector that is acknowledged by the investors and larger mining companies alike as best equipped for making new discoveries.

Flowthrough shares have been issued since 1983 in Canada, the only other country that supports a mineral exploration sector comparable to Australia's. From 1983 to 2001, \$Can9.1 billion was raised under flowthrough share issues resulting directly in numerous mineral discoveries. In October 2000, the Canadian federal government extended the tax credit available for eligible exploration expenditure in response to falling exploration levels. They gave a 15 per cent additional incentive on top of a 100 per cent allowable exploration deduction. Flowthrough shares are popular and demonstrably successful in Canada from both investor and government standpoints. I have attached to that statement a presentation that I gave to the government Members Committee on Industry Resources and Small Business in Canberra on 24 June. A lot of the details on flowthrough shares are contained in that document. Perhaps with those few words, I will ask if there are any questions.

**CHAIR**—Thank you for that, Mr Reed. The previous witness gave evidence that from 1996 until just recently his company had raised some \$14.9 million for exploration. I did not get the impression that, for that company, raising capital for their operations was such a huge problem. How widespread is the problem of juniors not being able to raise sufficient capital?

**Mr Reed**—Mr Buchhorn said towards the end of his statement on raising capital that recently he had had to raise capital at a discount to what he believed was the true value of his operations. It would be very difficult for companies such as Heron and my own company to raise capital in the current climate. Since September 11 last year, international markets have been uncertain. You only have to look at the fluctuations on the morning market reports all around the world. There has been a complete change in where investors put their money. I do not think that is likely to change in the next 12 to 24 months. People are more cautious. Exploration is a risky

business, so the risky end of the business is receiving less attention. Some goldmining companies were floated four or five months back, when the price got up around \$US330. That climate is not there today. I doubt very much whether you would get a goldmining company away today unless it had a really top prospect. Conditions for raising capital in small exploration companies are getting worse by the day.

**Mr HAASE**—We have had a lot of submissions about the flowthrough shares—the Canadian model—but I confess that most witnesses have simply referred to it. We have had scant evidence of the actual process: why investors would be attracted to flowthrough shares, how companies would find the formation of flowthrough shares beneficial in fundraising and how it would impinge on governments in their contributions to taxation. In other words, can you flesh out the actual process of raising a prospectus for flowthrough shares, selling that to the punters and getting exploration back on the road?

**Mr Reed**—Flowthrough shares in Canada have not been used for initial public offerings, or IPOs, to date. They have been used for placements and issues by existing junior mineral exploration companies that are in the business of exploring but that have run out of funds and have not been able to attract investor interest. There is always interest in the minerals sector, but people need an additional incentive at the moment to go into that investment because of other pressures and uncertainties. Effectively, what happens is the company applies to the stock exchange to issue, and gives a notice to issue, \$1 million of flowthrough shares. The money that it obtains from that must be spent on exploration within a certain period. Instead of the company claiming the deduction, the investor who applies for the shares gets his allocation of shares—say, at 20c—and he gets a tax deduction for that. That is the additional incentive for that person to invest in the minerals exploration industry.

I do not believe the investors will be farmers or people who normally invest in real estate; I believe they will be people who are knowledgeable about the mining industry and who follow the success of exploration but who need an additional incentive to go into that industry at the moment. I do not believe it will be for the bulk of big money earners in Sydney and Melbourne. I know it was a problem getting that through to the Treasurer, Mr Costello. He claimed that it would be used by people just to overcome a tax problem. I believe that the people who will invest in it will be genuine investors. They will sort out the companies with the better prospects, they will invest and they will get the tax deduction. Once they do that, they will then have the shares at a nil cost basis. They will get the tax deduction, so there is no cost for those shares as far as their books and accounting are concerned. If they sell those shares at 4c, 40c or \$4, that is all taxable. That then comes back to the government. The government is giving an exploration company the deductibility for exploration.

**Mr HAASE**—That is the case now.

**Mr Reed**—That is the case now. If that company comes into profit, it claims that exploration deduction off its profit anyway. The company is just transferring that deduction to the shareholders. It is not creating a new deduction; it is transferring that deduction from the company to the shareholder. The government will pick a lot of that back up when the investor sells their shares. The investor will pay tax whether they are successful or not because the companies will not go out of business; they will still be traded. Whatever price they are sold at, at whatever time in the future, tax will be paid on that amount.

**Mr HAASE**—Why wouldn't a junior explorer with the opportunity to raise funds in that manner simply raise the funds, give the deduction to the investor and then disperse those funds—not only in exploration but also in directors' fees, wages et cetera—and simply keep the show on the road? The explorer could be really unconcerned about whether they were on highly prospective ground and just keep the cycle going for the sake of keeping the show alive and keeping themselves in gainful employment.

**Mr Reed**—I think there are two points to make here. These days the investor is much more sophisticated and cautious. He is not going to invest in a company that he does not believe has genuine people and genuine explorers. We all have investment advisers and brokers. The deduction would only be available for genuine companies. It would be audited; the tax department would have a standard audit to prove that that money was spent on exploration. This is the way it is done in Canada. In fact there is a submission going through in Canada at the moment to include 15 per cent of the deduction to cover costs to the stock exchange, fundraising costs and whatever. These costs are not claimable at the moment under exploration expenditure. So the deduction is for pure exploration. It is monitored in Canada—and we can just duplicate those monitoring tools to monitor it here. So I do not see that being a problem.

**Mr HAASE**—I have just one more question. You would be aware of the angst created here in the Goldfields and across Western Australia by what were referred to as 'tax-effective schemes'. Would it be fair to say that many of those investors who were attracted to those schemes—for example, investments in IT, olives, grapes and various other activities—would invest in flowthrough shares and therefore simply transfer that investment?

**Mr Reed**—No, I see the investors in the mineral exploration industry as being more sophisticated. I do not see mums and dads or workers on payrolls putting their money into these companies for the sake of putting it in. I think it is an incentive that is going to be given more to the sophisticated investor: the guy who has been putting money into exploration companies over the years but at the moment is cautious and does not want to invest. He is someone who understands the business. I do not think it will be the mums and dads who will be taking the benefit of that tax incentive. It will be the more sophisticated investors, and they are probably the ones we want investing because they have more money, which will help the exploration industry recover faster.

**Mr HAASE**—Thank you.

**CHAIR**—I would like to pick up on your last point, Mr Reed. Many who invested in the tax-effective schemes never bothered to look properly at what the potential returns, both dividend and capital, from the investment schemes were. They raced into it because they wanted a tax deduction. Looking at some of those investors, it seems that they were more interested in a tax deduction than in making a profit. To pick up on Mr Haase's point, wouldn't this deduction attract many investors simply chasing a tax deduction?

**Mr Reed**—If that was the case, would it be so detrimental? It is getting money into the exploration industry—

**CHAIR**—I did not indicate that it would be detrimental; I am just posing the question.

**Mr Reed**—I am sorry if I answered that in the wrong way. I guess there is always going to be someone looking for a tax deduction for the sake of a tax deduction. But say that money is going into genuine, audited exploration and it is not going into schemes such as prepaid management fees on an olive grove that has not started yet—and we have no idea what it might be like when it does start. The exploration industry here has been going for over 100 years. It has had a great success rate; it will have that in the future. But it is dying. The person investing knows that, and he knows that there is a much better chance of investing in pure, grassroots exploration and getting something than perhaps waiting for years for advance fees on forests or olives. I think you will get sophisticated investors doing that. You will get some people looking perhaps just for the deduction—and they are entitled to.

But you have to realise that back in 1963 goldmining was exempt from income tax. That is why people went looking for goldmining. The goldmines at that time were under subsidy because they could not make money at the price of gold, so the federal government had a subsidy to keep them going. Then there was a cartage subsidy to cart the ore from outlying areas into state batteries and into treatment plants. That kept the industry alive. I see that we are going through another period like that—albeit much greater—which could be catastrophic to Western Australia and the Australian minerals industry if we do not correct this decline in exploration.

It is successful in Canada. It has been audited. We can look at the cases of all the smarties who came in and spent money on things which perhaps were not worth while, and govern our expenditure regulations on the back of their experience. I believe there would have been no chance for flowthrough shares if they had not been successful in Canada. But we can just pick up their model, introduce it here and perhaps refine it further.

**Mr TICEHURST**—I am looking at your list. One of the pages says that Australia is an industry in crisis, and you are showing that, over a six-year period, effectively there has been a 44 per cent reduction in exploration expenditures. But, globally, the other chart says there has been a nine-year low. In fact, it has dropped to half over the three-year period from 1997 to 1999. But you also mentioned in your introduction that the downturn is a function of metal prices. If that is the case, how will tax incentives here in Australia reverse the situation in the short term if it is driven by metal prices and, globally, the situation is very much the same?

**Mr Reed**—I think that is a fair question. My point is that it is happening globally. The big companies are not spending. The World Bank are even saying that, and they are helping developing countries foster exploration through World Bank grants because they see the majors are not doing it. It is an international phenomenon. Metal prices are creating this crisis. But, if we do not do something such as a flowthrough share incentive on exploration, this will only get worse and we will not have any geoscientists left. We will not have any drilling companies as such, and the economics of it will be that, in three or four years, most of the mines in this area will have shut because of lack of future reserves. There will be no new discoveries—and we have had not had a decent new discovery for three or four years—to take the place of the existing mines that are running out of ore. We have had two or three—Mount Leyshon and others—shut in the last couple of years. We have not had any others found.

If we just let world trends in metal prices carry on, this industry will probably get a lot worse before it gets better. But, if we put in an incentive for exploration and we get those explorers in the outback again, there is a success rate. But it takes time. It has been declining for four years. If we start spending now, we may start to pick up deposits in the next four, five or 10 years. If

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we do not spend for another five years, by the time world economics come down and determine that all these metal prices will go up, the new discoveries could be 10 or 15 years out. That is the crisis that we see.

**Mr TICEHURST**—Did that worldwide crisis continue? The figures only go to 1999.

**Mr Reed**—It has kept going down. It is still around \$2 billion. It was down around \$2 billion in 2001. With these huge copper deposits like Escondida et cetera, there is some school of thought that they can produce so much copper and keep the price there that they do not particularly want new discoveries. I am not sure whether that is the case, but there could be some validity to that.

**Mr CAMERON THOMPSON**—Looking at the flowthrough shares idea, and speaking more generally about investment, now that the technobubble has gone and there is talk about property not going anywhere, even without the incentive of flowthrough shares aren't we really looking at a situation where investment in minerals and the share market are likely to reattract a fair degree of capital coming back into it anyway?

**Mr Reed**—I do not think that is the case. If we look back to the mid to late eighties and the early nineties, we would probably have had 300 mining and exploration companies listed in Australia. Today we probably have 30 to 40. So the opportunities are not there. That is why we have to keep the exploration going to create the opportunities and the new discoveries, and get companies to come back into exploration. They are not going to come naturally, because it is just so hard to get capital. The fact that the number of companies has declined is proof of the fact that the investor has not been interested in mining. Over the last five or six years they have just lost interest in investing in mining companies. You only need to look at the number of mining companies listed.

**CHAIR**—Why?

**Mr Reed**—Because the returns have been low compared to other investments.

**CHAIR**—In hindsight, one could now say that some of the investment in the high-tech stuff before the bubble burst was not so crash hot.

**Mr Reed**—Sure—they were just crazy times.

**CHAIR**—The mining sector might well be old world economy and boring, but it sure is solid.

**Mr Reed**—Exactly, but still only a certain sector of the community is interested in mining. I have spent 40 years of my life here and I have been in Perth for last 16 years. I go to Rotary clubs and different clubs, and very few people are interested in mining. Really, only the people who grew up with mining and are associated with mining and exploration are interested. The average guy in the city is not interested in exploration and mining. He just believes that it is going to happen anyway. What we are saying is that, from a grassroots on-the-ground position, it is not going to happen. If you let exploration fall and you do not put in some sort of incentive, Australia's wealth is going to decline tremendously over the next few years.

**Mr CAMERON THOMPSON**—But, from your perspective, is the flowthrough shares idea just something to grab people's attention and focus it back on mining—is that the way you see it?

**Mr Reed**—I brought it up four and a half years ago. If we had introduced it then, we would not have the decline in exploration that we have now. I am just getting briefs from the prospectors and developers in Canada. Some of the states over there are giving 175 per cent concessions. Some are giving 150 per cent. Every state gives 100 per cent. The federal government in Canada is coming over the top of all of that, giving 15 per cent. They are saying, 'We see the need to do this in this world economy.' And it is successful. Last year in Canada they raised \$160 billion. In Ontario, in one state, \$69.3 billion was raised to 31 December.

**Mr CAMERON THOMPSON**—I suppose that the point I am making to you is that, if your problem is that there are insufficient companies—you said that it has gone from 300 down to 30 or 40—just the fact that you have the flowthrough share scheme is not going to create new companies. The companies need to be created anyway. What I am saying is that, if there is going to be a flow-back into the market for minerals anyway, is it really necessary to go to that length?

**Mr Reed**—But is there going to be a flow-back to minerals?

**Mr CAMERON THOMPSON**—Where else is it going to go?

**Mr Reed**—It has been declining for five years now. The high-tech boom crashed about 12 months ago and we have seen nothing coming into mining since, really. The amount of capital raised in mining in Australia is going down and it is going down worldwide.

**Mr CAMERON THOMPSON**—But how is the fact that you have flowthrough shares going to mean that people will actually create companies?

**Mr Reed**—A lot of these companies that went into high-tech are still around. A lot of them are still holding leases. They may well decide to refocus on mining, because they can issue some securities through flowthrough shares, raise \$1 million or \$2 million and come back in. A lot of their claims have native title claims over the top of them, so they cannot be granted. So they do not have to spend money. A lot of these companies are dormant and still listed, sitting out there at three or four cents. If this incentive came in, those companies would come back to life.

**Mr CAMERON THOMPSON**—Given their history, would they really be the sort of—

**Mr Reed**—Again, the investor would be cautious. He will have a look and see who the groups are. If the groups still look to be reasonably solid groups, they will invest in them. There are still some reasonable structures around, but they do not have any capital.

**Mr CAMERON THOMPSON**—With the fundamental problems of access to land and those sorts of issues, aren't we really trying to flog a dead horse if what we have is a basic inability to get access to the land in the first place and if the companies are failing to set up because they are just frustrated and cannot get the access?

**Mr Reed**—I do not think that is the case. Certainly native title problems are restricting access, but there is enough ground available for these companies to work on, on granted tenements. Our own company floated in July. We have three native title agreements drawn up with three different groups. In fees it would have cost us \$100,000 to \$150,000. They are all agreements that will pay royalties and whatever, and we put them in place in four or five months. So it can be done. We might be lucky. We are talking about only three lots of claimants in three different areas, but we did that. These companies can get access to certain areas, and our experience is that it can be done.

**CHAIR**—You mentioned earlier that the capital that previously went into the high-tech boom has still not flowed back anywhere else. Has capital stopped flowing into marginal venture projects since September 11, given the uncertainty in the world at this present moment?

**Mr Reed**—I am not quite sure of the question. Is the question: is September 11 the reason that the money is not flowing?

**CHAIR**—What I am asking is: is money not flowing? Are people putting their money into things that are a darn sight more secure because of the uncertainty not only in their own lives but also in the world?

**Mr Reed**—I think that is a true statement, but the mineral exploration expenditure has been coming down—a 30 per cent or 40 per cent drop or whatever—since 1997.

**CHAIR**—But during that period the capital was diverted into IT and away from mineral exploration.

**Mr Reed**—Some of it was. Whether it was or whether it was not, today we are looking at an industry that is in crisis and we are looking at a solution to perhaps halt that decline. Flowthrough shares work in Canada. They raised \$160 million to December 2001 and they will raise more this year. The companies over there are pushing for additional benefits on top of the 100 per cent to 175 per cent. If it works there and they see it being justified—we are in an international minerals industry; Canada and Australia are on the same basis as far as exploration is concerned—

**CHAIR**—What is the indication in Canada so far? Is it working?

**Mr Reed**—Yes, it is working.

**CHAIR**—They are getting the money in. Basically, to coin a pun, are the holes going into the ground?

**Mr Reed**—In July 2002, the prospectors and developers statement said:

The tax credits produced by “super” flow-through shares appear to have had a positive impact on the mineral exploration industry but still fall short of PDAC expectations. The association is therefore lobbying the federal government for enhancements to the program.

Latest figures show that approximately \$160 million was raised in 2001 - 50 per cent more than was raised in 2000. However, former Finance Minister Paul Martin is reported to have told a group of explorationists in Timmins, Ont. this

April that the federal government had budgeted \$300 million for flow-through share tax deferral in 2001. He expressed concern that the sector had not recovered as quickly as expected.

**CHAIR**—That started off with the words ‘appear to have’. If it did work, why didn’t they say ‘it has worked’?

**Mr Reed**—The statement then goes on to say:

... statistics to Dec. 31, 2001, show that \$69.3 million was raised for Ontario exploration work by 79 companies but \$26.9 million (30 per cent) of that was raised by just five companies, and of those five, two are operating companies.

The remaining 74 companies raised between \$15,000 and \$2 million, with a mathematical average financing of \$574,000.

“This implies that the exploration projects were relatively small and are being financed by private placements rather than prospectus- ....”

So it is for the small end of the market. We are saying that it does not suit bigger companies; it is for the small end of the market to get the junior explorers going.

**Mr CAMERON THOMPSON**—In probing this area, one of the questions would be: how many Canadian mining companies suddenly got an interest in IT during that period? Did they have the same drift away from mining that we had?

**Mr Reed**—I do not believe they did. Their mining companies are much smaller than ours are. Some of their companies only capitalise to \$200,000 and they have regional exchanges in each state, like we used to. Where we amalgamated all ours into the ASX, they still have one in Ontario, one in Quebec and so on and a lot of small companies. They are much more prone to risk. They will raise \$200,000 and spend the whole lot; if they do not get it, that could be the end. They are speculative companies but that money is helping them explore and find mines. They have found three world-class mines since they introduced this system.

**CHAIR**—We are just about out of time, Mr Reed. Thank you very much for your evidence today.

**Mr Reed**—Thank you.



[11.21 a.m.]

**O'DONNELL, Mr William George, President and Native Title Facilitator, East Goldfields Branch, Amalgamated Prospectors and Leaseholders Association of Western Australia**

**WILSON, Mr Scott Walter, Immediate Past President, Amalgamated Prospectors and Leaseholders Association of Western Australia**

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

**Mr O'Donnell**—I am known as Bill and some of the local Wongai Indigenous people call me Balagundi. My role as native title facilitator for the association is funded by a grant from the Attorney-General's office to assist non-corporate prospectors with native title problems.

**CHAIR**—Thank you. Before we proceed to questions, I would ask you to make a short opening statement.

**Mr O'Donnell**—We have not made a written submission, but we have here a copy of our submission to the John Bowler MLA state government inquiry into exploration and we would like to table that for you to read, probably later on. That particular document outlines a bit of our association's history. We have been an association since 1904, so in 2004 we will be celebrating the centenary of our association having represented prospectors in this state. The Amalgamated Prospectors and Leaseholders Association, APLA, was formed to protect and further the interest of prospectors and to obtain better conditions generally to stimulate and encourage prospecting. APLA has been an important part of this state's mining industry since 1904 and continues to make strong representations to government and the mining industry in all matters that affect prospectors. APLA has two delegates on the Mining Industry Liaison Committee, which is a joint government-industry committee established in 1988 to improve liaisons with industry and to review the operations of the state Mining Act. The association publishes a quarterly journal for members. The journal summarises APLA's current activities and contains industry updates, informative articles of interest to prospectors and so on. In this state we have in the vicinity of 540 members.

**Mr Wilson**—I guess the relevance of APLA in this inquiry is that we are predominantly a state based association and we deal with the Western Australian government on a fairly regular basis. However, we have strong links with various associations throughout Australia—for example, the Prospectors and Miners Association of Victoria and the North Queensland Miners Association—and we liaise fairly closely with them. We see this as an opportunity to put forward some ideas and proposals that will assist in the terms of reference of this committee.

**Mr O'Donnell**—The submission that we have tabled, being a submission to a state inquiry, of necessity contains quite a number of state issues and we intend to address here today only Commonwealth issues—native title and tax. We will not be going into any of the state regimes unless they conflict with the native title presentation that you might question us about.

**CHAIR**—The evidence we have had has indicated that a major part of the slowdown has been a result of no capital flowing through to juniors in particular. What is your comment on that? I would ask you to particularly comment on suggestions that have been put forward about tax arrangements to better encourage investment in this area.

**Mr O'Donnell**—In representing non-corporate prospectors, may I say that we are quite different, inextricably so in a lot of ways, from mining companies and exploration companies in that every dollar we spend comes out of our own pocket. We are not funded by shareholders and therefore we, as non-corporate prospectors, do not tend to get into heavy exploration or mining. We try to prove up tenements and then negotiate with mining companies or exploration companies to take out joint ventures or in fact buy the tenements, so capital is not a big concern of ours. However, section 23PA of the Income Tax Assessment Act was amended in 1996 and that had the effect of taxing prospectors on revenue received from the sale of tenements. This has had an enormous effect on prospectors looking for greenfield sites because at the end of the day they are going to be hit with a tax bill for the negotiated sale price of the tenements. So we are finding that prospectors are tending to concentrate in brownfield areas where there have been established mining centres for over 100 years. Nothing is really happening in the greenfield sector, which is the one that I believe this committee should be concerned about.

**Mr Wilson**—I will put forward some of the idiosyncrasies of the operation of prospectors, at least those in WA. You ask about the impact of the reduced capital that might be flowing through to mineral exploration. Prospectors are generally self-sufficient. They work on their own and they work towards success—they are success orientated—so as to derive their income, whether that is from gold—as in production—or from mining or from metal detecting right through to joint ventures and mineral tenement acquisitions and sale, so deriving an income from the sale. They feel the effects very keenly of the downturn in the industry because of the reduced opportunities that have come to pass in recent times with the lack of exploration.

Prospectors are the foot soldiers. When they are out in the field, they are looking to make discoveries, and in many instances they will peg a tenement over what they believe is a valid prospect and then look to on-sell that or to joint venture that to get to the next stage, which is drilling and development. In effect, they are their own mineral explorer, so they could be likened to a junior mining company in that they are out there actively exploring but they still need the resources of a larger corporate structure to eventually develop in many instances—not all—their discovery and seek a joint venture partner. So the effects are felt through that recent downturn in the industry, particularly in exploration.

Some of the ideas that we have put forward are to seek ways to assist the prospector, to keep him out in the bush, to make his rewards a little bit better and to help the rest of the industry, because it must be kept in mind that a healthy mining industry creates a flow-on effect that will assist prospectors. When mineral explorers, junior companies and major companies are actively exploring and in the field, they are actively talking to and cutting deals with prospectors and evaluating prospectors' tenements, shows and discoveries. It has a positive effect right throughout.

**Mr CAMERON THOMPSON**—In the paper that we received from you, which was a submission to the state inquiry, you said:

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Without question Native Title is the major issue faced by the exploration industry. Both State and Federal Governments need to pull together and have it resolved.

When we took a submission yesterday from the people in the state government, they told us that they thought the most important thing for the Commonwealth to do in relation to this issue of native title was to spend more money in support of Aboriginal representative groups. What is your reaction to that? Should that be the No. 1 priority? Do you have a different perspective? In what way would you like the state and Commonwealth to work better together?

**Mr O'Donnell**—On 14 September 1999, we gave a submission to a similar inquiry to this—the Joint Committee on Native Title and the Aboriginal and Torres Strait Islander Land Fund. We flagged at that time our concern that Aboriginal land councils were grossly underfunded. For instance, the problem that we have in this state is an 11,000 tenement backlog. You might have heard about that from the government. In 2001 a technical task force was instigated by the state government to look at ways and means of cutting this backlog, because there is an enormous shortfall in government funds coming out of that 11,000 tenement backlog as no annual rents or rates are being paid and no exploration is being done on those tenements because they are in limbo. There is lost opportunity in terms of discovering resources, employing people and one thing and another.

We sat on that task force along with members of the Chamber of Minerals and Energy of Western Australia, the Association of Mining and Exploration Companies, the Department of Mineral and Petroleum Resources and the Office of Premier and Cabinet. We came up with some recommendations that are being looked at at the moment by the state government to assist in getting those tenements granted. It is one thing getting the tenements granted, but the overarching principle of the recommendations is that, for any tenement granting regime to be successful in this state, Aboriginal heritage must be protected. There are some working groups at the moment looking at what will happen if and when these recommendations of the state government start releasing tenements into the system. In order to address the Aboriginal heritage concerns, they require heritage surveys to be done on those tenements before the Aboriginal people will withdraw the objections. Those surveys, or site clearances, are usually managed or orchestrated by an anthropologist. It could be an in-house anthropologist from the respective representative body—for instance, in the Goldfields we would be talking about the Goldfields Land and Sea Council—or it could be an external anthropologist. The fact is that, once we start releasing 11,000 tenements into the system, we are not going to have enough infrastructure and people on the ground within those land councils to be able to manage the heritage protection protocols.

At the moment, the Goldfields Land and Sea Council, for instance, is heavily involved in the first native title determination in the Federal Court in this area. It is called the Wonggatha determination. It begins hearing again on 11 November in Kalgoorlie for the third tranche of evidence to be heard this year, and some 70-odd witnesses will have been heard in that period of time. The Goldfields Land and Sea Council staff and its whole operative regime have been, for the last two years, solely involved in the Federal Court determination, so there is no structure within the Goldfields Land and Sea Council at the present time to carry out heritage protection surveys unless the tenement applicant arranges it for himself.

Part of the government's task force will be to provide funding for an additional two people in Kalgoorlie; an additional two people in the Yamatji Land Council area, which covers Murchison-Pilbara; one more in the Kimberley; one in Ngaanyatjarra, which is the Eastern

Desert region; and one in the south-west region of Western Australia. So seven people will be funded by the state to try to get this thing working, but it will still remain that land councils will be heavily bogged down, and what we have to avoid is creating another backlog because they cannot handle the work that is being given to them.

I will give you an indication of what we talked about in relation to cooperation between the state and federal governments on native title. In the technical task force recommendations it was discovered that there was an option that could have reduced the backlog of mining tenements in the system straightway by approximately half. In this state, we have three types of tenement tenure: a mining lease, which is a grant of land by the government; a prospecting licence; and an exploration licence. The exploration and prospecting licences are purely what they say; they are licences and they do not entitle people to any transfer of land deeds as such. They go through the expedited procedure of the Native Title Act and are fairly easily dealt with by orchestrating heritage surveys and what have you.

The mining lease applications have to go through the right to negotiate, and there are over 5,000 mining lease applications in the backlog. A great percentage of those—probably all bar a couple of hundred—are previous prospecting and exploration licences that have expired. After the expiration of the tenement time, the only option open to the tenement holder if he wants to retain the ground is to move into a mining lease application. So that has put a lot of previous prospecting and exploration licences into the backlog—we believe, unnecessarily. Section 38(1A) of the Native Title Act deals with what is called a ‘future act’ provision. That is where the government has to announce that it is about to embark on a future act by granting a mining lease, and that is what kicks the whole process off, if you like.

In that task force, we looked at setting up a two-stage mining lease whereby, in the initial stage, a mining company or a prospector could carry out their exploration and their prospecting without actually productively mining. They could do that for a number of years and then, when they eventually proved up an area on a mining lease that they wished to extensively mine, they could go into the second stage and actually mine it. That would enable the tenement to be granted on the basis of exploration and prospecting and leave the mining side of it until the day came when that was ready to proceed. This would be flagged by what we call an NOI—a notice of intent—which is lodged with the mines department to say that you want to do ground disturbing work, and that is where the second stage would kick in.

With section 38(1A), simple cooperation between the states and the Commonwealth, an acceptance by the Commonwealth that that provision needs to be changed, and a will to do it could allow that to happen, but at the moment there is an impediment there because section 38(1A) does not allow for a second future act to happen, so we cannot have a two-stage mining lease. That is an indication of how the Commonwealth are not listening, we believe, and they are not willing to fiddle with the Native Title Act anymore after the 10-point plan and what have you, but this is agreed by all parties as being one easy way to help deal with the problem we have in this future act regime.

**Mr CAMERON THOMPSON**—We have heard from some Aboriginal representative bodies, and one of the big things is the perception among them that there are just no jobs for Aboriginal people, certainly at the exploration stage and usually, they say, at the mining stage. I do not think it is misrepresenting them to say that, in many cases, they feel that the jobs go to outsiders and they do not get a chance, so they are not interested. Whether or not we resource

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these organisations better, if their perception is that this is not going to be of benefit to their people then your prospects of getting agreements and progressing things with groups that have that perception are very low. In order to overcome that, we obviously have to attack this perception about jobs not flowing to the Aboriginal communities. What is your view about that and what can we do about it? They are not going to want to sign up to and promote agreements unless they have that kind of thing built into them. What is your view?

**Mr O'Donnell**—I can understand that point of view. Unfortunately, non-corporate prospectors, whom we represent, do not have a lot of jobs to offer—we are battling to keep ourselves employed. However, we do get into negotiations from time to time with Aboriginal representative groups about that subject. I think the jobs are there; if and when exploration and mining increase, so will the jobs. In the last four years in the Goldfields area, we have looked at probably four new mines coming on-stream, and that is not a lot of jobs for anybody. What we have to do is get this 11,000-tenement backlog reduced and get people out there looking for mines and exploring so that there are jobs for everyone. I am quite sure that the flow-on effect of that will be that more Aboriginal people will be employed because, from my understanding of most of the agreements that are out there in the mining industry, one of the paramount provisions of those agreements is the provision of jobs and training for Aboriginal people. The protocols are there; it is just getting the action—getting some mining happening.

**Mr CAMERON THOMPSON**—I am concerned that there may be what I would regard as an excessively negative attitude held by those groups to mining largely on the basis of their believing that it does not benefit their people and in fact discriminates against them. I am worried about that and about having that kind of attitude locked into place. Unless there is some kind of renaissance, some kind of a change in people's view about that, I think the whole process is problematic. Is there something that governments can do to better quantify these jobs? We have a chicken and the egg thing happening—until we get the tenements up, we cannot get the jobs; if there are no jobs, we will not get the tenements.

**Mr O'Donnell**—That is right.

**Mr CAMERON THOMPSON**—Is there some way of breaking this cycle somewhere along the line?

**Mr Wilson**—One point that has to be kept firmly in mind here is that you are talking about jobs as a bartering tool with native title. If the industry—and that would include prospectors and mining exploration companies big and small—were able to progress, to actively and effectively explore and to create exploration and mines, the job opportunities would flow. What you are referring to is some of the Aboriginal parties and native title claimants using jobs as a bartering tool within their native title claim, which, as you say, is the chicken and the egg. It is the quid quo pro that is going on with the Aboriginal parties.

It is a difficult thing to quantify in the framework of the Native Title Act because it does not go into detail about employment incentives and things of that nature. You either have native title or you do not, and there is a process in place. So it is a very difficult thing to talk about. But at the coalface this is what is happening. It comes down to people saying, 'What is in it for me? If you're going to explore on our native title land, we need to have some sort of guarantee that there will be opportunities for us to participate on top of whatever payments or other compensation is payable under the Native Title Act.' So some things are happening. Indigenous

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People in Mining—which I think is predominantly state based, although I am not sure about its federal funding—has been proactive in supporting Indigenous native title holders in getting exploration based and mining contacting services to the industry. That has been fairly successful—

**Mr CAMERON THOMPSON**—What is the name of that group?

**Mr Wilson**—Indigenous People in Mining.

**Mr CAMERON THOMPSON**—Are these Indigenous people who are getting into exploration themselves?

**Mr Wilson**—They are providing services to the exploration industry and the mining industry. They have been providing drilling services, rehabilitation services and a number of other services relevant to the industry. I am not sure whether it has ATSI funding, but it would not surprise me. The committee could do some research into that, because it shows that the native title parties are being proactive in promoting themselves. Something that has bothered me somewhat as well as some persons I know of, predominantly in the Goldfields here, is that a number of companies are utilising Aboriginal or native title claimant services to the detriment of the local drilling contractors—the local people who have been in the game for a while. They are seeing a noticeable downturn in their business turnover due to the fact that many companies are using the services of the native title parties.

**Mr CAMERON THOMPSON**—Using the services of Aboriginal people?

**Mr Wilson**—Yes.

**Mr CAMERON THOMPSON**—So this is undercutting—

**Mr Wilson**—It has the potential to undercut, and has been seen to be undercutting, the services that are already in existence. This is where native title is causing some concern throughout the industry. The machinations of the Native Title Act allow for these deals and indeed force this sort of thing to happen where there are things outside the native title framework. If an explorer wants to have a tenement granted, they have been told to deal—and these are the deals that are being done—outside the framework of the Native Title Act. It is well worth the time of this committee, and indeed others, to look at the way and under what framework these deals are being done. It is very difficult. In many cases the parties will not talk about it and it is done behind closed doors. It can be detrimental to mining companies to be seen as antagonistic—for want of a better word—to the Native Title Act. It is in their interest to go along with the show and be seen to be proactive, where really it is costing them money.

**Mr CAMERON THOMPSON**—Sounds like a bloody mess.

**Mr Wilson**—From my perspective it is. But we are also very mindful, as an association, of the role we have to play. We have been proactive in working with the native title mess. We have been fairly successful. I will leave it to Bill to give you a rundown on how we have been of assistance. I think that is probably a good lead-in to the Attorney-General funding.

**Mr O'Donnell**—There are definitely precedents in the Goldfields in relation to contracts being let to Aboriginal companies. The Anaconda operation in the Leonora area has let quite a number of contracts to local Aboriginals. They run the laundry service and the canteen, and other services—cleaning services and what have you—have been let. One can only expect the number of opportunities to be according to the amount of activity that is occurring in the field. I have no doubt that if in future we saw an upturn in activity, due to the price of gold or what have you, there would be a lot more opportunities than there are now.

On the non-corporate scene, there are a lot of Aboriginal people who are prospectors in their own right. So everything we do in terms of representing non-corporate prospectors and trying to win rights and conditions for prospectors includes all prospectors. It does not matter whether they are black or white; they are prospectors and they come under our umbrella. Our funding from the federal Attorney-General's office has allowed us to run an office in Kalgoorlie for the last three years, and the guidelines under that funding are that we are available to all prospectors in Western Australia, not just to members. In that time we have assisted more than 120 prospectors to get a couple of hundred tenements granted right across the state—Marble Bar, Nullagine, through the Murchison and Pilbara goldfields. Wherever a prospector puts up his hand, we are there to assist.

**Mr TICEHURST**—To what extent do prospectors use geoscience data provided by governments, and does the cost of those data act as an impediment to those prospecting activities?

**Mr Wilson**—The services of the Geological Survey of Western Australia and the federal AGSO are certainly well utilised by prospectors. The costs can be prohibitive to the smaller end, but opportunities generally exist for us to go into the government agencies, view the data and utilise it on the state based systems. The Geological Survey of Western Australia is very proactive in its role, and increased federal and state funding to them is certainly of a prime concern to our association. We definitely support the ongoing commitment to new geoscience databases and to active liaison between state and federal as to grounds for creating new opportunities in greenfield areas. It is a service that is utilised by all the industry, particularly prospectors. In this instance, prospectors do utilise it and it is something that should be ongoing federally.

**Mr TICEHURST**—Is there an equitable proportion of pre-competitive data available for prospectors?

**Mr Wilson**—Meaning previous explorers' data?

**Mr TICEHURST**—Yes.

**Mr Wilson**—Yes, there is certainly a great system in WA, under the WAMEX system, which lists all of the recent explorers' activities, and it is compulsory in this state to submit annual reports and technical data. That data is being slowly and surely released to become open file—public information—and a wealth of information has been created. Certainly there is an opportunity to utilise that data from the prospectors' point of view, but I think it is also available to government agencies to utilise some of that information as well, and that would be well worth some research.

**Mr HAASE**—Is there any legislative requirement for prospectors, especially metal detector users, to report back to the principal leaseholder their finds and location of finds of gold?

**Mr O'Donnell**—Yes. One of the initiatives our association has been able to put in place in the last 18 months is permits under section 20A of the state Mining Act. That allows prospectors to apply for permits on exploration licences and, unless there is an objection by the primary tenement holder, the prospector is allowed to metal detect in those areas that he has applied for the permits. Part of the requirements under those permits is to report back on resource findings, particularly gold, and the locations. That is a requirement of the permit system.

**Mr HAASE**—Have you any indication of the compliance with that?

**Mr Wilson**—It is an issue which was raised in recent times through the state committees. We have recently introduced a new notification system that works in with that section 20A permit, whereby a pro-forma form is attached to it on which the prospector, if they are successful, will list details of whatever their finds are, their locations and the coordinates of that and then hand that back to the primary tenement holder. That is something that has been recognised, and we have been only too happy to assist in the promotion and knowledge of locations of finds. That is fairly new and time will tell whether it is successful. There was always going to be that difficulty and that element that, if there is no-one out there policing it, it will be difficult to guarantee that you are going to get all the finds through, but we are certainly promoting that it is in the best interests of the industry to have those finds recorded.

**Mr HAASE**—It may not be acutely obvious to members of this committee as to why prospectors would not want to make such a report. Can you elaborate on that?

**Mr Wilson**—It is an individual thing as to the reasons why prospectors may want to keep secret some of their finds. I guess when we are talking about a new discovery that they have found, they want time to work it. So the more people who know about where they are working, the less secret it is and the more opportunities for unscrupulous operators either to get out there and work their find or to tell others. Hence, they need that extra time to work the land to their own benefit before waving a red flag saying, 'This is where I am. This is where I am finding the gold.' This is what all rushes have been about—when a find is discovered, people rush to the scene, and that is the only reason why I could imagine that would happen.

However, it is part of the requirement in the Mining Act that they are reported, and we are certainly actively promoting that all prospectors do tell the primary tenement holder under the permit system where it is. Indeed, if it is outside the permit system, under the guidance of the miner's right, there is still an onus to report gold finds to the government.

**Mr O'Donnell**—The problem we have is that the resource that most prospectors are looking for is an alluvial resource, it is close to the surface and it is easily accessible, and a hell of a lot of illegal mining goes on out there with people who do not go through the permit system, who do not peg out tenements. Our members find that there is a minimum delay of at least 11 months when going through the application process in the mines department. Even if you have a good run through the system, you have got a four-month statutory period for advertising under the Native Title Act, for a start. Eleven months later when you get your tenement granted, there is very little near-surface alluvial gold left on the tenements, because the whole time they have been in application, they are what is called 'pending' and they have no underlying title—they

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are virtually vacant crown land—so people just roam on there with or without a miner's right and rape the tenement because it is known that it is in limbo through the application process.

**Mr HAASE**—In the perfect world, what security do we have? What action are we able to take to prevent that from occurring?

**Mr O'Donnell**—Hopefully, with the recommendations I spoke about earlier, once heritage protocols are put in place in the five regional areas in Western Australia, when a prospector makes an application for a tenement he will only have to indicate that he is willing to sign a heritage agreement and the tenement will be granted. So at least he will have a live tenement. But, as Scott said earlier in relation to the section 20A permits, it is then up to somebody to police that and neither we, the department or the local police have the resources to be following up on prospectors' complaints about gold stealing.

**Mr HAASE**—But if it was a perfect world and they did have the resources—there was one on every tenement—and somebody comes onto the tenement, what is the power?

**Mr O'Donnell**—Under the state Mining Act there is a penalty of \$10,000 for illegally prospecting and taking resources from a tenement. But you have to come up with the evidence—either video evidence or actually take some witness and catch the people in the process of taking the gold. A lot of the time it is done at night with machinery. Some of us live on our tenements from time to time, but we cannot be there 24 hours a day, 365 days a year, so it is a massive problem.

**Mr Wilson**—With your permission, can I summarise a couple of those key issues we touched on for our association?

**CHAIR**—Yes.

**Mr Wilson**—Our association is very supportive of the flowthrough shares scheme. Whatever helps the industry in turn has a flow-on effect and will help the prospector and the small guy, so we urge this committee to support that or at least to record our support of the flowthrough shares. We seek the reinstatement of section 203PA of the Income Tax Assessment Act to allow prospectors to have a tax-exempt status attached to the sale of their mining tenements as a reward for their efforts in exploring and an incentive to create new exploration successes.

Other issues need to be addressed in research and development. Flowthrough shares would be the prominent one, but we are certainly looking for the incentives to get prospectors out there. It must be remembered that prospectors basically cost the country nothing, they are very good at what they do and they need impediments that stop them getting out and exploring removed. Incentives need to be there to get them out there in the first place.

**Mr O'Donnell**—Yesterday we had a visit from Mr John Willis, from the Department of Industry, Tourism and Resources, who indicated that his department is keen to run a partnering program with Indigenous people in the Goldfields, as I think has been done in Queensland and New South Wales. That may happen in about April next year. We are quite keen to take part in that, so he is taking that back to Canberra. We would like to ask this committee to promote, if you like, in Canberra what we are doing here. Our funding from the Attorney-General's office is renewable in December each year and we are about to put our next submission in. We believe,

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from word coming down from the Attorney-General's legal aid division, that there might be a fairly hefty clampdown on legal aid assistance generally across the board in the future. It is absolutely imperative that the work we do with native title through that funding is allowed to continue, because we have got it to a stage now where it is working. We have made an unworkable act work; a lot of the protocols that we have developed are now being utilised by industry and by government. That is one of the major thrusts of these recommendations that will allow the freeing up of most of the tenements in the backlog. If you could take that message, we would be most appreciative.

**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 Haase**, seconded by **Mr Ticehurst**):

That submission No. 47 from the City of Kalgoorlie-Boulder, as amended, be received as evidence by the committee, and be authorised for publication as part of the inquiry.

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

That submission No. 98 from Reed Resources Ltd be received as evidence by the committee and be authorised for publication as part of the inquiry.

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

That confidential exhibit No. 34 from the Amalgamated Prospectors and Leaseholders Association of WA Inc. submission to the WA government inquiry be incorporated into the records as a confidential exhibit to the inquiry.

Resolved (on motion by **Mr Haase**, 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 the public hearing this day.

**Committee adjourned at 12.06 p.m.**