15 July 2002

House of Representatives
Standing Committee on Industry and Resources
Parliament Place
Canberra ACT 2600

By e-mail: ir.reps@aph.gov.au

Dear Sir

RE: INQUIRY INTO RESOURCES EXPLORATION IMPEDIMENTS

Further to the letter from Ms Beverley Forbes of the 26 June 2002 advising that the Minister for Industry, Tourism and Resources, The Hon Ian Macfarlane MP, had requested the House of Representatives Standing Committee on Industry and Resources to conduct an inquiry into any impediments to increasing investment in mineral and petroleum exploration in Australia. On behalf of Metex Resources Ltd I would like to take this opportunity to make a submission to the above Inquiry. It is not our intention to address all of the issues outlined in the Terms of Reference but to focus on those that, from our experience, directly effect our business, in particular **the decline in expenditure on regional exploration (or as it is more commonly termed "greenfields" exploration).** Greenfields exploration is at the high-risk end of exploration. It is the method of exploration that led to the discovery of world class deposits such as Olympic Dam and Telfer. It was the type of exploration program carried out in the past by companies such as WMC Resources, BHP or RioTinto in active programs throughout mainland Australia.

Background

Metex is an Australian Stock Exchange ("ASX") listed public company with approximately 1,400 shareholders holding a total of 158 million shares. The Company listed in December 1993 and has been active in exploration within Western Australia and to a lessor extent Victoria.

The Company is in joint venture in the Laverton and Kalgoorlie regions of Western Australia with one of the few remaining significant Australian gold producers AurionGold Ltd. AurionGold itself is now the subject of a takeover offer by the Canadian listed major Placer Dome.

Since 1993 this Company has on average spent about $1.2 to $1.5 million dollars per annum and has been fortunate enough to make at least one significant discovery for gold (the Chatterbox gold resources of 620,000 ounces) in the Laverton area.

Metex is also the majority shareholder for another "greenfields" exploration company, Elkedra Diamonds NL. Elkedra is currently undertaking greenfields exploration for diamonds in the Northern Territory.

We believe that we have an excellent understanding of the problems junior explorers have experienced in recent years, and are well qualified to contribute to this Inquiry.

Our Experience

The following issues are required to be addressed with respect to the impediments to increasing investment in mineral and petroleum exploration in Australia. **They require urgent and sustained action at both Federal and State Government levels:**

1. **Impediments to accessing capital, particularly by small companies.**

   At present (and in recent years) there is a lack of risk capital to carry out exploration. This issue is being pursued by both the Australian Gold Council ("AGC") and the Association of Mining and Exploration Companies ("AMEC"). It comes at a time when the industry is in a period of transition that commenced in the early 1990's from successfully finding a host of near surface, low cost gold discoveries in a relatively immature exploration environment to an environment where discoveries are deeper and more difficult to find. Initially it was an environment ideally suited to small companies. Consequently many small companies flourished and evolved to become substantial mining houses. Now explorers are required to approach exploration for minerals with a similar frame of mind to drilling oil wells. Targets are deeper, require the acquisition of expensive and complex data sets, and are evaluated using expensive deeper drilling techniques such as diamond drilling. **This transition from an immature to mature exploration regime is reflected in the lack of significant discoveries in recent years.**

   For the **retail investor** exploration companies are competing for investment dollars currently directed at a **diverse range of alternatives including agricultural and tree plantation based tax effective schemes, and industries that receive concessional R and D tax treatment.** High risk greenfields exploration is being denied the opportunity to compete with these alternative, equally risky investment opportunities as a result of their concessional tax treatment and their ability to raise funds via managed investment syndicates and the use of Australian Taxation Office ("ATO") endorsed Product Rulings. Proposals such as **"flow through shares"** being championed by the peak industry bodies such as AGC and AMEC if introduced **will allow retail investors the opportunity to invest directly in companies undertaking greenfields exploration and in return receive a tax deduction for the amount invested.** It is more than coincidence that the only country (Canada) to utilise this form of tax effective investment has seen expenditure on exploration increase in recent years. For details on how the use of flow through shares could assist the exploration industry the Committee is directed to AMEC's June 2002 Submission to the Ministerial Inquiry into Greenfields Exploration established by the Hon. Clive Brown, Minister for State Development of Western Australia.

   Secondly, with respect to **institutional funds** it is almost perverse that billions of dollars are flowing into compulsory superannuation and then being managed by fund managers whose only priority is to maintain an investment performance commensurate with their peers. In many respects they will only invest in the top 200 to 300 listed companies by market capitalisation, and the method of investment is akin to what would be expected from a professional day trader as distinct from a sophisticated investor. **There has to be a genuine change by fund managers, including having discretion, without prejudicing their role as managers, to invest at least a small proportion of funds under management (estimated to be increasing at about $30 billion per annum) in development of new ventures, including "greenfields" explorers.** This could be in the form of a small percentage (say 5%) of all fund flowing into these funds being directed to companies with a market capitalisation of $50 million or less. This would ensure that some re adjustment of investment priorities occurs. **Australian fund managers need to be encouraged to support Australian companies and redevelop an appropriate level of technical expertise in assessing resource-based opportunities.**

More recently the **Financial Services Reform Act of the 11 March 2002** contained provisions that disallowed the secondary sale of securities acquired by way of placements unless accompanied by a prospectus. These changes were introduced without any consultation with industry, and result in significant impediments to a small companies timely ability to raise capital. The legislation requires a prospectus to be produced unless the purchaser agrees to enter into a deed not to sell the shares within 12 months. The requirement for a prospectus will inevitably result in higher corporate costs and less money being spent in the ground.

2. Access to land including Native Title and Cultural Heritage issues.

Land access difficulties related to Native Title has to be resolved. Suffice to say that 10 years after the Marbo decision in 1992 there are still no outcome that all parties, including the Federal and State Governments will agree upon. It is a clear example of failure at both State and Federal level that has resulted in the lack of a workable outcome for all stakeholders. **Until the situation is rectified or clarified either by the Parliament (both Commonwealth and State) or the High Court, it will continue to be one of the single biggest impediments to reinvigorating greenfields exploration.**

3. Public provisions of geoscientific data.

In recent years there has been a clear distinction between the Commonwealth, States and Territories in their willingness to provide high quality regional data sets either on a user pays or no cost basis. One of the consequences of the evolving maturity of the Australian exploration scene is the greater sophistication of the tools required. Geophysics in particular is the key to looking below the extensive cover sequences that conceal vast tracts of the Australian continent. Regional aeromagnetics, regional gravity and regional airborne EM are tools that are routinely required to enable effective targeting to be completed. Gravity and EM in particular are expensive and are not routinely collected by either Federal or State agencies. There should be greater degrees of cooperation at both State and Federal level to ensure that that high quality data involving detailed aeromagnetics, ground based gravity and airborne electromagnetic (EM) surveys are made available electronically at little or no cost. There should be a national approach ensuring that appropriate priorities are set such that the most prospective terrains are identified and completed first.

Geochemical surveys have commenced in Western Australia on a regional scale (1:250,000 scale). These provide a very rapid method for accessing prospectivity however they are time consuming and expensive, and can only be used in suitable terrains. Regional geochemical surveys should be directed towards areas where little or no modern exploration has been completed. This will ensure that areas outside of historically active regions will be targeted. As with geophysics the data should be available at little or no cost.

4. The structure of the industry and the role of small companies in resource exploration in Australia.

The role of small or junior exploration companies in the mining and exploration industry has changed fundamentally over the last five years. During the late 1980's and early 1990's Australian headquartered resource companies both in number and as a proportion of the total market capitalisation of all companies listed on the Australian Stock Exchange ("ASX") were significantly greater than at present. The market was categorized into four general groups based on market capitalisation and production profile. The top tier included companies such as BHP, RioTinto, and WMC. The second tier included substantial producers such as Norths, Sons of Gwalia, Plutonic, Dominion, Ashton, Delta etc. Below these were the emerging producers such as Croesus, Forrestania, Coolgardie Gold etc. The lower end of the market was for a reasonably large number of speculative junior explorers. This structure has all but disappeared leaving only a small number of mid tier producers and junior explorers. This has occurred for the following reasons:

- **Globalisation** has resulted in the top tier groups moving offshore. RioTinto and bhpbilliton can not be considered as Australian based companies. To be internationally competitive they have to be domicile in Europe or the USA.

- Mergers, takeovers etc have been driven by institutional shareholders within Australia to the extent that **the mid-tier group has been reduced to two in number** (Newcrest and AurionGold). The investment time line for institutional investors is so short there has been substantial pressure on companies to grow by merger and acquisition rather than by growth by discovery as was the case for companies such as WMC during the 1980's and early 1990's.

- **This has been followed by a period of international consolidation** as a result of the low Australian dollar. North American and South African domicile companies have been able to acquire Australian assets at historically low prices. As much as the low currency has allowed Australian exporters to remain internationally competitive during a period of global economic uncertainty the downside has been the ability of foreign companies with balance sheets backed by US$ to acquire Australian assets cheaply. This consolidation has resulted in high unemployment and under employment rates for professional geoscientists. Many of these professionals have elected leave the industry altogether.

- **The emerging and junior end was decimated by a period of low commodity prices and the flood of funds into the so-called high tech or IT boom of the late 1990's.** The majority of remaining junior explorers became vehicles for dot com entrepreneurs.

This has left a resource sector divided between major producers that are generally foreign owned ie AngloGold, Barrick, Harmony, Newmont, Goldfields SA and Placer Dome and junior exploration companies with little or no cash flow. One of the few roles that the genuine remaining junior explorers can fill in this lop sided environment is to form strategic alliances with one ore more of the larger companies. They become de facto exploration teams dependent on financial support of their funding partners. The downside to this is that they are essentially captive to the producers, with little or no chance to evolve to any size since most of these relationships generally involve the funding party assuming management and operational control at some stage.

5. Conclusions

The exploration industry, a major contributor to this nations economic well being, has been in crisis for a considerable period of time. This has been obvious to all industry participants however it has been the rapid decline in exploration expenditure that has accentuated the depth of the problem. The reasons for this decline in exploration expenditure are:

- The lack of availability of risk capital to small exploration companies.

- The lack of access to land principally as a result of Native Title issues.

- The availability of relevant and appropriate geoscientific data at little or no cost.

The issues and potential solutions outlined require urgent attention by governments at Federal and State level. All stakeholders are aware of the consequences of the rapid decline in exploration expenditure. This country will be unable to sustaining the pipeline of new discoveries that will develop the projects of the future. The lack of these new resource based projects will impact initially on regional and remote Australia. However, increasingly there will be a negative impact on significant areas of the business community in the major cities and communities of the Commonwealth.

Yours sincerely

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