

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY,
SCIENCE AND RESOURCES

22 JUL 2002

RECEIVED

**RIO
TINTO**

House of Representatives Standing Committee
on Industry and Resources

Submission No: 46

Date Received: 22 JULY 2002

Secretary: J. Finlayson

22 July 2002

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

Dear Sir/Madam

INQUIRY INTO RESOURCES EXPLORATION IMPEDIMENTS

Please find enclosed Rio Tinto Exploration's submission to the inquiry into resources exploration impediments in Australia, convened by the Standing Committee on Industry and Resources.

As one of the leading resources companies in Australia and a major contributor to the national economy, Rio Tinto takes an active interest in pursuing measures that will add value to our exploration activities. We welcome this inquiry and the opportunity to contribute to what will undoubtedly be a robust discussion and review process.

Our submission addresses the Terms of Reference of the inquiry and provides some additional pertinent comments. Underpinning our submission is the fundamental imperative for smarter, and not necessarily more, exploration.

We recognise that this submission does not contain many specific examples of impediments relevant to Rio Tinto Exploration. However, we would be happy to discuss our particular concerns with the Committee Secretary of the inquiry during the submission evaluation process. Please do not hesitate to call me if you require further information.

Yours sincerely


Eric J. Finlayson
Exploration Director
Rio Tinto Exploration Australasia

Rio Tinto Exploration
Submission to the Inquiry into Resources Exploration
Impediments

Contents

1. General Comments
2. Background – Rio Tinto
3. Context – Exploration in the Resources Industry
4. Terms of Reference
 - 4.1 Assessment of resource endowment and rates of draw down
 - 4.2 Structure of the industry and role of small companies in exploration
 - 4.3 Impediments to accessing capital
 - 4.4 Access to land
 - 4.5 Environmental and other approval processes
 - 4.6 Public provision of geoscientific data
 - 4.7 Relationships with indigenous communities
 - 4.8 Contributions to regional development
 - 4.9 Recommended additional area of focus for inquiry

1. General Comments

Australia's minerals export earnings were \$56.4 billion in 2000/2001 out of total goods and services export earnings of \$154 billion. Any reduction in these export earnings would have a significant and adverse impact on the Australian economy and on the nation's standard of living.

The level of minerals exploration is an important factor for continued growth of the mining sector. Historically, Australia has been an attractive destination for the limited pool of exploration funds available to the global exploration industry. In 2001 for example, Australia attracted a 17.5% share of global exploration expenditures.

In calling for measures to strengthen the exploration industry in Australia, it is imperative that **effective** exploration is stimulated rather than speculative activities in the guise of exploration. As a major company explorer, Rio Tinto Exploration pursues projects that will generate long-term stakeholder value. Some other companies have shorter-term or more speculative goals.

The comments in this submission are underpinned by the concept that the aim of government and industry should be to increase the rate of discovery and that this is not necessarily linked to increased expenditure. The initial goal must be to achieve more with existing dollars through encouraging more effective exploration activity.

2. Background – Rio Tinto

Rio Tinto is a world leader in finding, mining and processing the earth's mineral resources. Rio Tinto takes a long-term responsible approach to exploring for world-class ore bodies and to developing large, efficient operations capable of sustaining competitive advantage. In pursuing its work, the company follows industry best-practice safety, environmental and community standards.

Rio Tinto manages a range of operations in Australia related to iron ore, aluminium, coal, diamond, copper/gold, uranium, talc and salt production. Sales from these operations make Rio Tinto Australia's third largest export earner.

Rio Tinto Exploration conducts an aggressive global exploration programme that seeks to discover or identify for acquisition mineral resources that can replace the production from existing mines. Exploration activities are organised into four geographically based teams that currently explore in around 30 countries for a range of commodities including copper, diamonds, nickel, industrial minerals, gold and iron ore.

The headquarters for Rio Tinto Exploration's Australian programme is in Perth, Western Australia. Current annual expenditure on exploration in Australia by Rio Tinto Exploration is around \$17 million with a further \$24 million spent by the Rio Tinto business units in the immediate vicinity of the Australian mines. Global expenditure on exploration by Rio Tinto was around \$260 million in the 2001 calendar year.

3. Context – Exploration in the Resources Industry

The realities of the global mining industry are harsh. On average, total annual shareholder return for mining companies has been around 2.5% over the past 30 years. This poor financial performance means that mining faces intense competition for capital from other market sectors.

Market calls for improved capital returns from the mining industry, coupled with a slide in the gold price and pressure on earnings due to supply over-capacity, have led to a massive decline in global exploration expenditure over the last five years. While annual expenditures in the nineties were anomalously high and peaked at \$10 billion dollars in 1997, the ratio of exploration spending to gross value of metal production in the 2000-2001 financial year was around 1.5% as compared to the historic long-term average of 2.4%. The ratio in the mid-nineties was around 3.6%.

To compound the problem of reduced exploration expenditures, discovery costs have risen due to less effective use of funds. Indeed, discovery costs have been rising for a prolonged period of time and have tripled over the past 30 years. There are many disparate reasons for the decline in exploration success but they include a move towards higher-risk covered-area exploration and a proliferation of speculative explorers aimed at mining the market rather

than the earth's mineral resources. The market speculators however have languished over the last five years through their inability to raise capital. A number of other factors are impacting upon the level of exploration investment in Australia:

- Consolidation of the mining industry, through large-scale mergers and acquisitions, has resulted in a smaller number of major companies conducting exploration. This has had a direct effect on total dollars spent.
- Public attitudes in Australia towards the activities of mining companies continue to undergo substantial shifts. Heightened social, environmental and economic expectations mean that it is becoming more challenging for companies to gain a "licence to operate".
- The time involved in gaining access to land has become the rate-determining step for reputable explorers. Delayed programmes mean delayed expenditures.
- Exploration, development and production of metals and minerals is moving increasingly towards developing countries that are under-explored and offer attractive geological potential.

4. Terms of Reference

4.1 Assessment of resource endowment and rates of draw down

From a major company perspective, it is usually less risky and more cost effective to explore close to existing mining operations. Such brownfields exploration can add significant value through discovery of incremental resources.

In comparison, the strike rate on greenfields projects is relatively low. In difficult economic times, major companies tend to significantly reduce their greenfields efforts unless risk-mitigating incentives are provided. A fundamental problem with this situation is that long-term sustainability of the mining industry depends upon discovery of large new high-quality resources through greenfields work.

4.2 Structure of the industry and role of small companies in exploration

Major companies largely control access to brownfields opportunities. At the other end of the industry scale are the junior mining companies who are usually involved in greenfields exploration or in evaluation of small discoveries that have not met the investment hurdles of the majors. These projects can sometimes transform junior companies into mid-tier producers.

Major companies therefore play an important role in providing seed opportunities for juniors. Table 1 summarises mines or projects in Australia that have been passed from Rio Tinto Exploration to smaller companies. Other major companies could provide similar examples.

Company	Project	Commodity
Kimberley Diamonds	Ellendale	Diamonds
Southern Cross Resources	Yarramba	Uranium
Kagara Zinc	Mt Garnet	Zinc-Lead
St Barbara Mines	Paulsens	Gold
Compass Resources	Browns	Polymetallic
Aberfoyle	Carosue Dam	Gold
Australian Graphite	Mikkira	Graphite
Sale in progress	Merlin	Diamonds
Silver Standard	Bowden's Gift	Silver
Macraes	Reefton, Sam's Creek	Gold
Sipa Resources	Ashburton	Gold

Table 1: Projects that have been advanced to junior miners from Rio Tinto.

4.3 Impediments to accessing capital

In any major mining company there is internal competition for capital. As already mentioned in this submission, high-risk greenfields exploration tends to suffer when economic conditions deteriorate. However, without greenfields exploration growth of the mining industry is ultimately limited.

Any government financial incentives for exploration must focus on at least two critical issues:

- It must stimulate more effective exploration expenditure.
- It must allow Australia to become more competitive globally.

Rio Tinto Exploration's preference would be for an enhanced tax write-off against income of eligible greenfields exploration expenditure. This would serve to promote greenfields exploration by major mining companies. The adverse impact on government tax revenue would likely be more than offset by the economic benefits cascading from mine discovery.

Alternative flow-through tax schemes may benefit junior companies but it is highly debateable whether such schemes actually promote effective exploration. Experience from Canada suggests that flow-through funds reach just as many speculators as they do effective explorers.

4.4 Access to land

Australia must find economically and socially viable solutions to a range of land access issues that have arisen since the development of the Native Title Act. Rio Tinto Exploration considers that current problems are with the process rather than the principles of land access negotiations. A lack of process efficiency lies at the heart of costly delays in accessing land.

The absence of a co-ordinated approach by key regulatory agencies is introducing unnecessary delays to the exploration process. A centralised

approach that crosses state borders, different government departments and QANGOs is strongly recommended.

A further issue for focus is that of heritage protection legislation. This legislation is relatively generic, particularly at the Federal level, creating potential for ambiguity and unproductive debate.

4.5 Environmental and other approval processes

Rio Tinto Exploration has in place a comprehensive environmental management system. The company is well placed to meet legislative demands and does not regard the environmental approval process to be a significant impediment to our business.

However, as with land access, the approval process would benefit from improved co-ordination of government departments and agencies. A system of government decision-making that is consistent, clear and streamlined is required and would ideally be provided by a "one stop shop" for approvals. Such a body could have for example:

- Authority to approve exploration projects.
- The ability to deal with regulatory discrepancies between State and Federal Governments.
- A holistic view of land, environmental, heritage, investment and planning issues before project approvals are sought.

4.6 Public provision of geoscientific data

Rio Tinto Exploration believes that collection and low-cost dissemination of geoscientific data by government agencies is critical for exploration success. However, the capacity of Geoscience Australia to produce new fundamental data of practical use to the mining industry appears to have diminished in recent years.

State government agencies vary markedly in their approach to producing and serving up information to the exploration community. Federal initiatives to coordinate and assist state support of the exploration sector would be of benefit.

4.7 Relationships with indigenous communities

Rio Tinto Exploration is working with a number of Land Councils across Australia to accelerate the process of land access and to ensure that community needs and expectations are met. This has led to a number of recent landmark land access agreements in the Northern Territory, South Australia and Western Australia.

Payments to Traditional Owners, in the form of compensation payments or royalties, are normally required in both the exploration and mining phases of a project on aboriginal freehold. To ensure that royalties do not prejudice the viability of a project, there needs to be a re-evaluation of State Government royalties to ensure that royalties payable to the government are net of royalties payable to Traditional Owners. Indeed, all business costs, including payments to Traditional Owners, interest charges and government taxes should be deductible from revenue in the calculation of government royalties.

4.8 Contributions to regional development

Much of Rio Tinto Exploration's work is in the remote areas of Australia where there is little infrastructure and only small communities from which to draw employees.

There is an opportunity for government to provide assistance to explorers through the provision of development agreements for remote area infrastructure in the event of major exploration success.

4.9 Recommended additional area of focus for inquiry

Geoscience education is an area that warrants attention by the inquiry. A lack of quality students entering geoscience programs and a decrease in research funding are contributing to a growing concern in the mining industry.

There appears to be a "vicious circle" developing in which the unpopularity of geosciences (and sciences more generally) is leading to lower entry requirements at universities and poorer standards. The mining industry and governments must work together to:

- Enhance the public perception of science and engineering as worthwhile professions.
- Support properly resourced teaching centres at both undergraduate and postgraduate level.
- Commit to key centres for exploration, mining and mineral processing research.
- Revive R&D funding for materials science research.