THE AUSTRALIAN GOLD COUNCIL

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2 August 2002

The Hon. Geoff Prosser MP
Chairman
House of Representatives
Standing Committee on Industry and Resources
Parliament House
CANBERRA 2600

Dear Mr Prosser

Inquiry into Resources Exploration Impediments

Please find enclosed the Australian Gold Council's submission to the House of Representatives Standing Committee on Industry and Resources Inquiry into Resources Exploration Impediments.

The submission provides an overview of the Australian Gold Council, highlights the gold exploration sector's importance to the gold industry and recommends ways existing impediments to gold exploration can be reduced and removed.

Council representatives are available and willing to present verbal evidence on the submission should Committee hearings be called in coming months and it looks forward to receiving your advice in this regard.

Please refer any queries on the submission or Committee hearings to the undersigned on (03) 9628 2217.

Yours sincerely

Tamara Stevens
CHIEF EXECUTIVE OFFICER

enc.

AUSTRALIAN GOLD COUNCIL

Submission

House of Representatives Standing Committee on Industry and Resources Inquiry into Resources Exploration Impediments

AUGUST 2002

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Executive Summary

The Australian Gold Council was established in 1998 and represents the Australian gold industry at home and offshore.

The Council represents over 130 gold producers (representing 95 per cent of Australian gold production), explorers and industry service/supply providers throughout Australia.

A Board of Directors comprising representatives from all major Australian gold production companies, coupled with small-medium sized gold producers, explorers and industry service/supply providers, governs the Council.

The Council maintains a gold-focused operational charter and its objectives can be summarised as follows:

1. Raise and improve the profile of the Australian Gold industry both at home and abroad.
2. Facilitate industry research, information exchange and general publications relating to the economic and social contribution of the gold industry.
3. Address gold specific taxation issues including royalties, tariffs, financial reporting and regulation guidelines.
4. Develop initiatives to improve education about gold and the gold industry.
5. Increase investment and investment awareness in the sector generally and encourage investment in gold exploration.

As gold exploration and increased investment in the sector is a primary Council objective and critical to the industry's future, significant Council resource is committed on an annual basis to improving the investment climate and operating environment for Australian gold explorers.

The gold industry is a major contributor to the nation. As revealed in the Council's *2002 Gold Industry Investment Survey* (attached as Appendix A), the industry delivers substantial benefits for all Australians, including $7.6 billion in capital, production, exploration and environmental expenditures, over $5 billion in export income and tens of thousands of jobs in regional Australia each year.

More recently however, gold exploration has endured some of the most difficult years in its modern day history, plummeting more than 50 per cent since 1997. The scale and duration of the exploration downturn has serious implications for the Australian gold industry and has been caused by a combination of factors including lack of venture capital, industry consolidation/restructure and land access constraints.

Although investor interest in the sector has begun to improve in 2002 on the back of a US$300+ gold price, this will not sufficiently address what has been a dramatic and prolonged decline in exploration activity. This has produced a steady drop in Australian gold production that is forecast to continue over the next five years and possibly beyond.

Most investor interest is focused on gold producers or emerging gold producers. Little support exists for high-risk, early stage or so called 'green-fields' exploration, which is essential for the future production capacity of the industry and its continued ability to contribute to the national balance of payments and regional development.

Lead times between exploration and mine development are generally between four and five years, therefore a large and sustained increase in gold exploration expenditure is necessary in the short-term to address the ongoing decline in production and assure the industry's continued national and regional contribution to Australia.

Recent consolidation of the Australian gold sector by large foreign producers is likely to generate an increasing reliance on the small company or junior sector of the industry. These small companies rely solely on venture capital to fund exploration activities, ie. they incur an operating loss.

The Council welcomes the Standing Committee Inquiry into Resources Exploration Impediments and the opportunity to comment on such an important component of the Australian gold sector.

In the submission that follows, the Council makes a number of recommendations for consideration by the Inquiry that, if implemented, will significantly improve the investment climate and operating environment for Australian gold exploration companies.

Given the Council's focus on gold industry investment, its key recommendation relates to encouraging greater venture capital investment in the exploration sector.

Although general recommendations are made on the defined 'Terms of Reference', the Council's limited resource and gold-focused charter means that it rarely becomes involved in broader minerals industry issues such as native title, Aboriginal Heritage and environmental approvals, leaving engagement on these issues to the national and state minerals industry councils.

In summary, the Council views lack of access to venture capital as the primary reason for today's historic gold exploration low. The Council urges the Federal Government to implement Australian taxation incentives for mineral exploration investment based on the Canadian 'Flow Through Shares Scheme'.

Terms of Reference

1. An assessment of Australia's resource endowment and the rates at which it is being drawn down.

In a presentation to the Melbourne Mining Club in March 2002, Mr Robert Champion de Crespigny, formerly of Normandy Mining and arguably one of Australia's most successful gold miners, made three telling points.

(a) Australia has world class gold assets and potential;

(b) It has the lowest sovereign risk and is a wonderful place to do business and live; and

(c) The domestic equity market has failed to recognise the strategic value of Australian mining assets.

He then carried on to illustrate Australia's unrivalled gold exploration success over the period 1970 – 2000, during which 199 gold discoveries were made that together, produced over 3.8 million kilograms of gold. He commented that Australian gold explorers have repeatedly proved themselves to be among the most successful and cost-effective in the world and that vast areas of Australia remain completely unexplored, describing the nation as, "A young, terribly under-explored country".

Mr Champion de Crespigny's thoughts are echoed by existing and potential gold explorers throughout the country, who contend that Australia boasts a number of provinces with potential to host as yet, undiscovered world-class gold deposits.

For example, the exploration community agrees that the best 'green-field' (grassroots) potential lies within poorly explored terrains with shallow cover such as the Tanami Desert. Here, many 'outcropping' undiscovered deposits remain to be found, as evidenced by Newmont Australia's (formerly Normandy Mining) recently discovered 'Groundrush' deposit.

Moreover, heavily explored provinces such as the 'Yilgarn' in Western Australia continue to rate as highly prospective, a good example being the 7 million ounce 'Wallaby' deposit discovered in 1998, eleven kilometres south-west of the established Granny Smith gold mine.

Australia's demonstrated gold prospectivity will not, of its own accord however, be sufficient to maintain a robust and successful gold exploration industry. As later sections of this submission will demonstrate, other market and regulatory factors impact the exploration sector directly and can, if not addressed effectively in the timeframes required, precipitate long-term and comprehensive exploration declines.

To illustrate, in addition to the all-pervasive venture capital drought, exploration has ground to a virtual standstill in Queensland assisted by unworkable state and federal native title legislation that, over time, has effectively crippled the best efforts of explorers in that State.

This despite Queensland's long mining history, outstanding mineral prospectivity and previous reputation as one of Australia's most vibrant exploration and mineral production states.

Clearly, action must be taken now to address and resolve impediments to Australian mineral exploration that in recent years have begun to make the nation's formidable prospectivity appear little more than a moot point.

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

Over the last two years the Australian gold industry has undergone swift and comprehensive consolidation and re-structure.

Today, close to 70 per cent of the Australian gold production sector is foreign owned by large North American and South African gold mining companies. This percentage is expected to rise further based on ongoing foreign interest in Australia's remaining large producers including AurionGold, Newcrest and Lihir.

Domestic consolidation has also proceeded apace in recent years, with many Australian owned companies merging to realise more cost-effective operations and market attraction.

The considerable pace and extent of industry consolidation is beginning to exert a significant impact on the gold mining industry, particularly exploration. Increasingly, the large foreign owned producers with global portfolios over which they must spread risk, are reducing high-risk green-fields exploration budgets and staff in favour of lower cost, lower-risk brown-fields (close to existing mines/ore bodies) exploration and development.

Furthermore, the shrinking number of large gold production companies are often reluctant to increase and in many instances even maintain current exploration expenditure levels given their focus on gold production and routine inability to explore as cost-effectively as small gold exploration companies.

The consolidation described has dramatically changed the structure and dynamic of the Australian gold industry. Today the industry is characterised by a steadily decreasing number of large, foreign owned producers, less than 20 smaller Australian owned producers and approximately 120 gold exploration companies.

The improved outlook for gold in 2002 has recently prompted a number of new gold company floats seeking to capitalise on the metal's higher price. However, the volatility of global markets has ensured that investor interest remains largely confined to emerging producers and brown-fields exploration.

Large gold producers operating in Australia have long considered exploration companies the industry's 'pathfinders', whose ability to locate economic ore bodies cannot be undertaken as cost-effectively by the majors. More recently, the increasing gulf between gold production and exploration from a size and numbers perspective has the potential to further heighten the gold industry's reliance on explorers who are prepared to commit the high-risk capital necessary to find and develop the mines of tomorrow, either of their own accord or in concert with the large producers.

The role of the exploration company in Australia's rapidly consolidating gold sector should not therefore, be underestimated. . In essence, these companies represent the industry's future and are best characterised as the gold industry's research and development arm.

A favourable operating environment for exploration companies to permit long-term maintenance and renewal of the national gold inventory is therefore paramount to the industry's future, particularly in the face of continued consolidation of the industry's production sector.

3. Impediments to accessing capital, particularly by small companies.

- ***The Problem***

As highlighted in the Executive Summary, recent years have seen gold exploration endure some of the most difficult years in its modern day history. Australian gold exploration expenditure has more than halved since its 1997 high of $736.6 million to $365.5 million in 2001, while ABS March 2002 Quarter figures reveal a further 12 per cent ($10 million) fall on the preceding December 2001 Quarter and a 14 per cent decline on the March 2001 Quarter.

The Council submits that the single biggest contributor to the gold exploration downturn has been the sector's lack of access to venture capital in recent years. In essence, investor disinterest and competition from other venture capital sectors, severely reduced the ability of gold explorers to raise the venture capital required to mount and continue exploration programmes, particularly in green-fields areas.

Investor abandonment of the sector has continued over a period of years and was initially driven by a $US<280 gold price and associated capital flow into 'new' technology sectors such as IT, biotechnology and telecommunications.

These fledgling industries, in a bull market, proved more attractive to speculative investors chasing a quick capital return.

This situation was compounded by discrimination in the current taxation regime that encourages investor sentiment to ignore the junior resource sector in favour of 'new' technology companies that are the present beneficiaries of Federal Government assistance and promotion. Exploration is the 'research and development' activity of the mining industry. However, exploration expenditure is specifically excluded from the research and development taxation incentives/assistance provided to other industry sectors such as plantation timber, olive production and vineyard establishment.

These factors have left investors with a poor perception of mineral exploration.

The flight of venture capital from exploration over the last five years and the key role it has played in reducing domestic gold expenditure by over 50 per cent, has been significant. In addition, the improved outlook for gold in 2002, although welcomed by the Council, is unlikely to generate the level and scale of green-fields exploration investment required in the short-term to ensure gold industry growth and development in future years, ie. if exploration companies cannot raise the venture capital necessary to discover and evaluate gold deposits to a proved stage, the consolidated gold industry of today will not have a supply of projects in the future.

- ***The Solution***

  In 2001, the scarcity of exploration venture capital prompted the Council to investigate methods of attracting funds to the sector via taxation incentives for exploration investment. Council research soon discovered the success of Canada's 'Flow Through Shares Scheme' which mobilises local venture capital for mineral exploration programs.

  In summary, the Canadian Scheme allows companies that make a consolidated operating loss to transfer to shareholders the tax deductions associated with bona fide exploration work by issuing 'Flow Through Shares'. The Flow Through Shares form part of the company's share capital, but can only be issued by eligible entities registered with an appropriate organisation. The tax deduction resulting from the exploration expenditure incurred by the company (with specified limitations) is then passed on to the shareholder and is subsequently not deductible to the eligible entity.

  For a shareholder to qualify for Flow Through deductions, an agreement must be signed between the shareholder and the eligible entity at the time of subscription for the Flow Through Shares. The eligible exploration expenses are then treated as expenses of the shareholder. This involves a process whereby the company "renounces" the expenses to the shareholder, however an eligible entity cannot renounce more exploration expenditure that it has actually incurred and cannot renounce to the shareholders more than the consideration received for the shares.

Like Australia, Canada was suffering a serious mineral exploration downturn when the Scheme was introduced in the mid 1980's. Since then, the Scheme has facilitated numerous Canadian mineral discoveries including three billion-dollar-plus mines in British Columbia, Quebec and Ontario.

Furthermore, the Canadian resources industry estimates that since October 2000 over C$50 million has been raised in flow-through financing that together with aggressive Federal Government geo-scientific programmes, has transformed Canada into one of the world's most popular exploration investment destinations at the expense of traditionally favoured nations such as Australia.

The Federal Minister for Resources, the Hon, Ian McFarlane, has acknowledged the exploration funding crisis and has offered to work together with industry on finding a solution. Based on the Canadian experience, the Council has recommended to the Minister urgent implementation of a Flow Through Shares Scheme specifically tailored to meet Australia's requirements. To assist the Minister's and the Standing Committee's consideration of the taxation incentive issue, the Council commissioned Ernst and Young to develop an Australian model based on the Canadian Scheme but with safeguards that protect investors and the integrity of the Scheme from inappropriate applications. A copy of the Ernst and Young model is attached as Appendix B.

The Council believes that taxation incentives are the most effective way of attracting venture capital to the exploration industry.

In conclusion, the need for Australian taxation incentives to attract much needed capital to green-fields gold exploration is compelling and one of the Council's highest priorities.

- ***Recommendation***

That the Federal Government urgently investigate the Canadian Flow Through Shares Scheme and in conjunction with the exploration industry, implement Australian taxation incentives for mineral exploration investment based on the Canadian model.

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

Given the AGC's focus on a limited number of gold specific issues including industry investment, gold marketing and industry promotion, it has usually avoided commentary and activity in relation to native title and Aboriginal heritage issues.

The Council believes these issues are effectively addressed by the established, broad based minerals industry representative groups such as the Minerals Council of Australia and State/Territory Minerals Chambers, and is reluctant to duplicate their efforts in this regard. The significant level of member company overlap between the Council and the national and state minerals industry groups also justifies this decision.

Notwithstanding the above, the exploration venture capital difficulties described at Point 3 have been significantly compounded by the myriad land access difficulties associated with the *Native Title Act* and differing Federal and State/Territory Aboriginal heritage regimes.

This is undeniable.

Historically active and resource rich mining states such as Western Australia and Queensland provide ample evidence of the difficulties unworkable native title and Aboriginal heritage regimes have imposed on the Australian exploration sector. In Western Australia alone, over 12,000 mineral tenements remain stalled in the application system due predominantly to native title constraints, while in Queensland, the Queensland Mining Council has predicted that unless the tenement application backlog is addressed in the short-term, "Mining, except for a few established and long-life projects, will cease in Queensland by about 2016."

While the Australian gold industry has spent considerable time, effort and money negotiating native title agreements and Aboriginal heritage site clearances with traditional owners across Australia, the excessive costs associated with such agreements and clearances has proved prohibitive for many gold explorers already coping with investor disinterest.

As green-fields exploration is, by definition, high-risk and low-impact when compared with mine development and gold production, native title and heritage requirements have in many instances made it difficult and sometimes impossible for explorers to access ground within the timeframes and cost structures necessary.

In the case of Aboriginal heritage surveys particularly, explorers have become increasingly concerned not only by costs often associated with the necessary clearances, but also the absence of any standard methodologies and the fact that at present, companies have no means of ascertaining the validity of survey results.

While the Council has welcomed moves by the Western Australian Government to address that State's mineral tenement backlog and native title/Aboriginal heritage issues through establishment of a 'Technical Taskforce on Mineral Tenements and Land Title Applications', the Council has become increasingly concerned and disillusioned at the apparent lack of Taskforce progress since its formation in April 2001.

Although the five year gold exploration decline can be primarily blamed on explorers' inability to access sufficient venture capital, the ongoing land access difficulties associated with native title and Aboriginal heritage have placed further pressure on exploration companies attempting to undertake what is by definition, an extremely high-risk, high-cost endeavour.

- ***Recommendation***

  That amendments to the *Native Title Act* and Federal/State Aboriginal Heritage regimes be undertaken to better recognise the low-impact, high-risk nature of green-fields exploration and facilitate timely explorer access to land at realistic cost.

5. Environmental and other approval processes, including across jurisdictions

As outlined previously, the Council has generally not tackled broader environmental and other approval processes on behalf of the gold industry, leaving these issues to be addressed by the national and state minerals industry groups.

Nevertheless, the Council fully supports the efforts of these groups to assist develop and maintain streamlined, non-duplicatory environmental and other approvals processes across Federal and State jurisdictions. The potential unwieldy and duplicatory processes have to create further disincentives for the gold exploration sector is considerable and should be avoided at all costs.

To better promote its commitment to the Australian environment and the realisation of an effective, streamlined approvals regimes across all jurisdictions, in 1996 the Australian minerals industry developed a voluntary *Minerals Industry Code for Environmental Management*, to which the Council and the majority of its member companies currently subscribes.

Additionally, in 2000 work commenced on a global gold industry *International Cyanide Management Code* which is now close to completion and has received the Council's input and endorsement.

These voluntary industry Codes are designed to complement existing State and Federal statute and regulation and demonstrate the industry's commitment to environmental best practice and the communities in which it operates.

- ***Recommendation***

  That all environmental and other minerals industry approvals be simplified where possible and streamlined across jurisdictions to avoid unnecessary duplication and associated costs to mining and exploration companies.

6. Public provision of geoscientific data

The Australian gold industry has long argued the need for publicly available pre-competitive geoscience data and the important role such data plays in increasing the attractiveness of a state, territory or nation to potential explorers.

The venture capital and land access issues described above have considerably intensified competition between states and territories for the mineral exploration dollar, while global competition has also increased on the back of industry consolidation and a poor gold price.

Australia can therefore ill afford complacency based on an historically high level of exploration, given moves by other nations such as Canada and certain African and Asian countries to secure a larger piece of the global exploration pie through the provision of more advanced and comprehensive pre-competitive geoscience data and/or the establishment of favourable taxation and regulatory regimes specifically designed to attract exploration investment.

To ensure Australia's pre-eminence as a mineral exploration destination, Federal and State Governments must, in addition to implementing exploration taxation incentives, develop through the Australian Geological Survey Organisation (AGSO) and State Geological Survey Departments cutting edge pre-competitive geoscience programmes that will serve as strong incentives to invest exploration dollars in Australia.

While a number of States including Victoria and New South Wales have been particularly active in this area, more must be done by states such as Western Australia and nationally through AGSO, if Australia is to shore up its position as one of the world's top exploration destinations.

- ***Recommendation***

  That State and Federal Governments better coordinate their pre-competitive geoscience programme provision and seek to develop the best priced, most technologically advanced programmes to encourage and increase domestic mineral exploration.

7. Relationships with indigenous communities

Throughout its history, the Australian gold industry has worked hard to foster successful and mutually beneficial relationships with indigenous communities.

The industry's commitment to Australia's indigenous community is evidenced in the Council's recently released *2002 Gold Industry Investment Survey* (attached as Appendix A), which revels that the industry spends millions of dollars per annum on community development projects, a large proportion of which are indigenous focused.

As discussed at Point 4 however, native title and Aboriginal heritage issues have introduced considerable complexity to State/Territory land access regimes and in many cases have made gold exploration, particularly high-risk green-fields activities, significantly more time-consuming and costly.

While the industry has worked within and outside existing State and Federal statutes governing native title and Aboriginal heritage and sought to develop long-standing and beneficial relationships with indigenous communities, fundamental land access problems remain that must be addressed in the short-term if Australia's exploration sector is to enjoy an operating environment favourable to its increasingly demanding cost and time imperatives.

8. Contributions to regional development

The Council's *2002 Gold Investment Survey* (attached as Appendix A) provides conclusive proof of the gold industry's significant and growing economic, social and environmental contribution to regional Australia.

Most notably however, the Survey reveals the colossal extent of the industry's contribution to regional Australia.

To illustrate, of the $7.6 billion in capital, operational and exploration expenditure the industry is forecast to contribute in 2002/03, over $7.1 billion of this investment will occur in regional Australia.

Similarly, over 90 per cent of gold industry employees are currently located in regional Australia, while the industry plans to spend more than $6 million this year on community development projects including community sponsorships, local building and infrastructure projects and indigenous support and scholarships. The vast majority of this expenditure will be committed in regional areas.

The Survey also revels some troubling numbers from an exploration perspective. Although the combined capital, operation and exploration expenditure forecast in 2002/03 is a staggering $7.6 billion, only $378 million, or 4.9 per cent of that figure will be spent on exploration.

Even more alarming, however, is that a large part of the exploration expenditure forecast will take place in brown-fields areas. It will note be committed to green-fields exploration programmes that will find tomorrow's mines and are vital to the industry's future and its ability to contribute to regional development.

Over $6 billion of the expenditure forecast will be committed to operational projects, which although crucial from an current export income, job creation, regional/community development perspective, will merely maintain and administer existing gold operations, not actively search out new ore bodies to replace those being developed today.

In summary therefore, although at first glance the Survey appears to reveal a robust and growing industry, further investigation demonstrates that its exploration, or research and development sector, is in crisis. Failure now to address this crisis will inevitably impact the industry's formidable contribution to regional development and has the potential to bring about a steady decline in a world-class Australian industry.

CONCLUSION

The Council commends the House of Representatives Industry and Resources Standing Committee on initiation of this Inquiry. The Council also appreciates the opportunity to comment on gold exploration impediments and make recommendations as to how they should be addressed.

The Council trusts that its comments and recommendations will receive due consideration by the Standing Committee and Council representatives are available and eager to present further verbal evidence by way of Committee hearings should the opportunity to arise.

In conclusion, the gold industry's future will be largely determined by its success now at increasing exploration through realisation of a more favourable investor and regulatory environment.

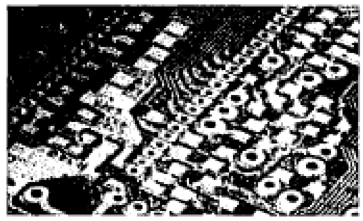
The Council looks forward to working with the Standing Committee and the Federal Government on ways to address the gold exploration crisis, so that the industry's contribution to Australia's enviable standard of living and its future is maintained and expanded in years to come.

Deloitte Touche Tohmatsu

AUSTRALIAN GOLD COUNCIL / DELOITTE TOUCHE TOHMATSU

2002 Gold Investment Survey

Appendix A



Introduction

Gold is one of the mainstays of the Australian economy. It is one of the nation's major contributors to economic development, in terms of export volume, capital investment and employment, especially in regional areas.

With $4.8 billion in exports in 2001, gold is Australia's third biggest export commodity, behind coal and crude oil.

Gold exploration and production is undertaken in all Australian states and the Northern Territory.

The gold sector is also a major contributor in the regional areas, both in terms of economic output and in employment.

The 2002 Gold Investment Survey, conducted by the Australian Gold Council and Deloitte Touche Tohmatsu, underlines the industry's level of economic contribution.

In May and June 2002, the Australian Gold Council, the peak organisation of gold producers and explorers, combined with Deloitte Touche Tohmatsu to survey the gold industry on the level of expenditure in the domestic gold industry.

Members were surveyed on their companies' levels of capital, exploration and operational expenditure. Respondents were asked to provide their levels of employment and the amount spent on environmental works associated with their products.

In this survey, respondents were also asked about their level of expenditure directed to community development projects.

The survey was conducted against the backdrop of some significant developments in the Australian gold sector. Takeover activity has resulted in major consolidation within the gold production sector.

Survey respondents include the bulk of Australia's gold production, exploration and contractor companies, most of whom are members of the Australian Gold Council.

Executive Summary

The Gold Investment Survey, conducted by the Australian Gold Council and Deloitte Touche Tohmatsu, provides a snapshot of expenditure by the Australian gold industry.

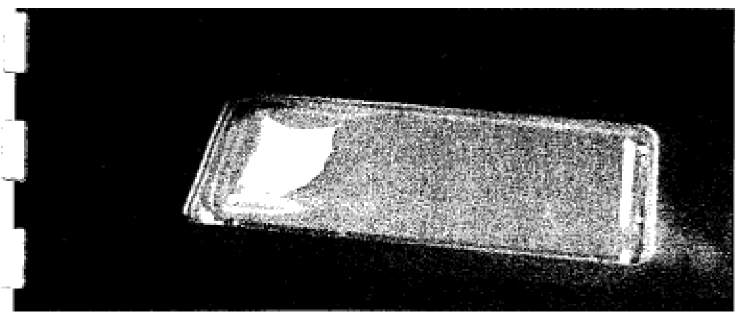
Respondents to the survey – producers, contractors and explorers – were asked to provide their investment levels for 2001-2 (forecast and actual), and their forecast level of investment in the 2002-3 year.

The survey found that the Australian gold industry spent more than $6.7 billion in capital, operational and exploration expenditure in 2001-2 – up from the $6 billion originally forecast by the industry for the financial year.

In 2002-3, the survey found that the Australian gold producers, contractors and explorers would spend more than $7.6 billion in capital, operational and exploration expenditure.

More than $7.1 billion of this forecast investment would occur in regional areas, the survey found.

The survey also confirmed that the Australian gold industry remained a major employer in regional areas.



In 2002-3, the Australian gold industry is forecast to employ 22,849 people, both directly and indirectly or as contractors. More than 21,000 of these employees would be in regional areas.

The Gold Investment Survey also asked respondents on their level of expenditure committed to environmental projects, such as land reclamation, revegetation or rehabilitation.

In 2002-3, the Australian gold industry was expected to spend more than $65 million in environmental works. In 2001-2, the level of environmental expenditure was $69 million, the survey found.

Respondents to the survey were also asked to detail their level of expenditure for community development projects.

Projects in this community development category may include community sponsorships, local building and infrastructure projects, indigenous support and scholarships.

The survey revealed that in 2002-3, the Australian gold industry would allocate more than $6 million for community development contributions, up from $4.8 million contributed in 2001-2.

Methodology

Surveying of a total 65 Australian Gold Council members was carried out in May and June 2002.

Respondents were categorised into the fields of explorer, producer and contractor. Survey forms were distributed for return mail, via fax, postage or email.

Forms were distributed to the following members of the AGC:

- The 25 producer members of the AGC. The respondents included all of Australia's major gold producers.
- The 30 explorer members.
- The 10 contractor members, plus a list of supplementary contractors not members of the AGC.

Responses were sought for two time periods, 2001-2 and 2002-3.

For 2001-2, responses were sought on the forecast and actual levels of expenditure on capital, exploration and operational expenditure, plus expenditure on environmental works and community development, and employment levels.

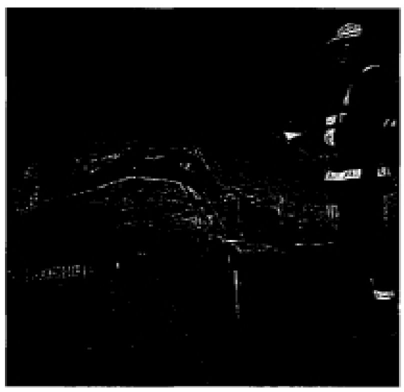
For 2002-3, the survey sought responses on forecast levels for the above categories.

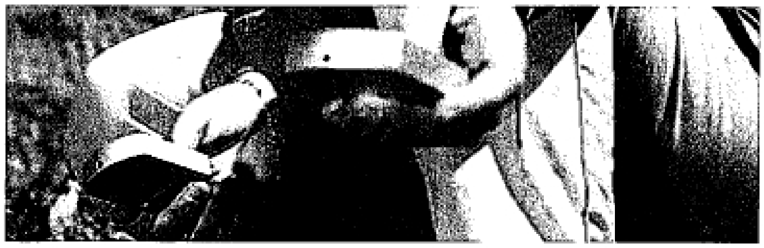
In both areas of total expenditure and employment, figures were recorded for both capital cities and regional areas.

Response rates varied for the particular membership categories:

- Of the 25 producer members surveyed, 17 responded (68 percent response rate),
- Of the 30 explorer members surveyed, 21 responded (70 percent), and
- Of the 10 contractor members surveyed, 10 responded (100 percent response).

Data received and collated for the survey is unique for the Australian gold sector. Similar information is not available through the Australian Bureau of Statistics or the Australian Bureau of Agricultural and Resource Economics (ABARE).





Gold Investment Survey

Combined Results

Expenditure	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
1. Capital Expenditure			
Within capital cities	17,565,776	8,715,682	20,921,161
Outside capital cities	824,407,599	995,179,072	1,253,612,739
Sub-total	***841,973,375***	***1,003,894,754***	***1,274,533,900***
2. Exploration expenditure			
Within capital cities	15,994,549	15,839,091	16,539,091
Outside capital cities	291,634,349	288,031,000	362,331,000
Sub-total	***307,628,898***	***303,870,091***	***378,870,091***
3. Operational expenditure			
Within capital cities	431,770,403	425,265,320	484,764,462
Outside capital cities	4,486,950,821	4,989,329,596	5,541,002,498
Sub-total	***4,918,721,224***	***5,414,594,916***	***6,025,766,960***
Full total	***6,068,323,497***	***6,722,359,761***	***7,679,170,951***

Employment	2001-2 Forecast	2001-2 Actual	2002-3 Forecast
Direct employees	11,312	12,679	13,915
Indirect employees	982	1,184	1,060
Contractors	6637	7624	7874
Total	***18,931***	***21,487***	***22,849***
Within capital cities	1708	1676	1627
Outside capital cities	17,223	19,811	21,222

Environmental Expenditure	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Capital	11,193,635	8,430,589	5,775,500
Operating	63,820,956	60,629,989	59,436,473
Total	***75,014,591***	***69,060,578***	***65,211,973***

Community Development Contributions	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Total	***5,198,102***	***4,826,400***	***6,256,400***

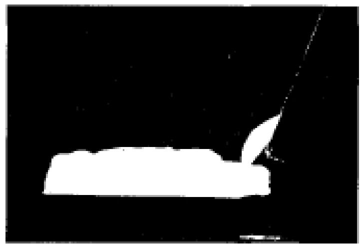
Contractor Results

The following figures relate to the amount of capital, operating and environmental expenditure undertaken by contractors in the Australian gold sector. All figures are in $A.

Capital Expenditure	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*2,999,465*	*2,483,682*	*2,373,161*
Outside capital cities	*86,944,165*	*129,611,259*	*197,617,839*
Total	***89,943,630***	***132,094,941***	***199,991,000***

Operational Expenditure	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*272,884,955*	*261,202,709*	*305,830,951*
Outside capital cities	*1,574,169,446*	*1,865,366,242*	*1,996,982,549*
Total	***1,847,054,401***	***2,126,568,951***	***2,302,813,500***

Total Direct Expenditure - Contractors	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*275,884,420*	*263,686,391*	*308,204,112*
Outside capital cities	*1,661,113,611*	*1,994,977,501*	*2,194,600,388*
Total	***1,936,998,031***	***2,258,663,892***	***2,502,804,500***



Environmental Expenditure

The level of **environmental** expenditure undertaken by contractors within the Australian gold industry, in $A.

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Capital	*378,102*	*724,589*	*873,000*
Operating	*3,460,235*	*3,676,645*	*4,351,073*
Total	***3,838,337***	***4,401,234***	***5,224,073***

Employment (Full-time equivalents)

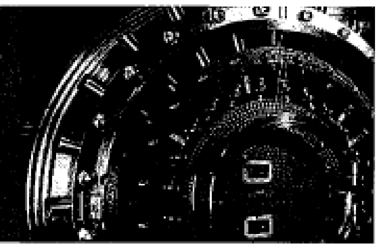
The level of **employment** (direct, indirect or by contract) of contractors to the gold industry within Australia:

	2001-2 Forecast	2001-2 Actual	2002-3 Forecast
Direct employees	*5258*	*5863*	*6384*
Indirect employees	*245*	*341*	*214*
Contractors	*456*	*570*	*626*
Total	***5959***	***6774***	***7224***
Within capital cities	*762*	*750*	*727*
Outside capital cities	*5197*	*6024*	*6497*

Community Development Contributions

The level of **community development contributions** by contractors to the gold industry within Australia, in $A:

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Total	***292,277***	***353,500***	***480,000***



Producer Results

The following figures relate to the amount of capital, operational, exploration and environmental expenditure undertaken by producers in the Australian gold sector. All figures are in $A.

Capital Expenditure

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*14,454,925*	*5,797,000*	*18,048,000*
Outside capital cities	*736,246,934*	*862,602,813*	*1,049,864,900*
Total	***750,701,859***	***868,399,813***	***1,067,912,900***

Exploration Expenditure

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*14,359,396*	*14,149,091*	*14,399,091*
Outside capital cities	*260,980,572*	*257,176,000*	*321,091,000*
Total	***275,339,968***	***271,325,091***	***335,490,091***

Operational Expenditure

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*153,435,313*	*158,272,611*	*172,663,511*
Outside capital cities	*2,907,231,375*	*3,108,363,354*	*3,510,699,949*
Total	***3,060,666,668***	***3,266,635,965***	***3,683,363,460***

Total Direct Expenditure – Producers

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*182,249,634*	*178,218,702*	*205,110,602*
Outside capital cities	*3,904,458,881*	*4,228,142,167*	*4,881,655,849*
Total	***4,086,708,515***	***4,406,360,869***	***5,086,766,451***

Employment (Full-time equivalents)

The level of **employment** (direct, indirect or by contract) of gold producers within Australia:

	2001-2 Forecast	2001-2 Actual	2002-3 Forecast
Direct employees	*5973*	*6,725*	*7,431*
Indirect employees	*726*	*825*	*827*
Contractors	*6116*	*6,939*	*7,123*
Total	***12,815***	***14,489***	***15,381***
Within capital cities	*867*	*836*	*803*
Outside capital cities	*11,948*	*13,653*	*14,578*

Environmental Expenditure

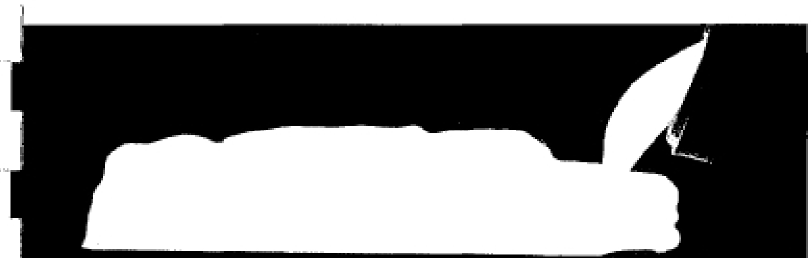
The level of **expenditure** (in $A only) undertaken on environmental projects by producers within Australia.

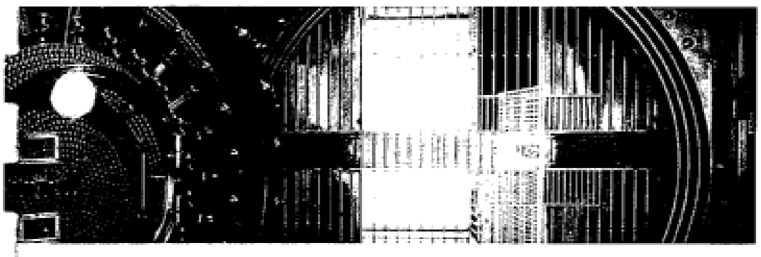
	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Capital	*10,815,000*	*7,700,000*	*4,885,000*
Operating	*60,052,336*	*56,466,344*	*54,125,400*
Total	***70,867,336***	***64,166,344***	***59,010,400***

Community Development Contributions

The level of contributions to **community development** by producers in the Australian gold industry, in $A:

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Total	***4,835,825***	***4,400,900***	***5,685,900***





Explorer Results

The following figures relate to the amount of capital, operating and exploration expenditure undertaken by explorers in the Australian gold sector. All figures are in $A.

Capital Expenditure	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*111,386*	*435,000*	*500,000*
Outside capital cities	*1,216,500*	*2,965,000*	*6,130,000*
Total	***1,327,886***	***3,400,000***	***6,630,000***

Exploration Expenditure	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*1,635,153*	*1,690,000*	*2,140,000*
Outside capital cities	*30,653,777*	*30,855,000*	*41,240,000*
Total	***32,288,930***	***32,545,000***	***43,380,000***

Operational Expenditure	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*5,450,135*	*5,790,000*	*6,270,000*
Outside capital cities	*5,550,000*	*15,600,000*	*33,320,000*
Total	***11,000,135***	***21,390,000***	***39,590,000***

Total Direct Expenditure – Explorers	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Within capital cities	*7,196,674*	*7,915,000*	*8,910,000*
Outside capital cities	*37,420,277*	*49,420,000*	*80,690,000*
Total	***44,616,951***	***57,335,000***	***89,600,000***

Employment (Full-Time Equivalents)

The level of **employment** (direct, indirect or by contract) of explorers within the Australian gold sector:

	2001-2 Forecast	2001-2 Actual	2002-3 Forecast
Direct employees	*81*	*91*	*100*
Indirect employees	*11*	*18*	*19*
Contractors(+ others)	*65*	*115*	*125*
Total	***157***	***224***	***244***
Within capital cities	*79*	*90*	*97*
Outside capital cities	*78*	*134*	*147*

Environmental Expenditure

The level of expenditure undertaken on **environmental** projects by explorers within the Australian gold sector, in $A:

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Capital	*533*	*6,000*	*17,500*
Operating	*308,385*	*487,000*	*960,000*
Total	***308,918***	***493,000***	***977,500***

Community Development Contributions

The level of expenditure contribution to **community development** by explorers within the Australian gold industry, in $A:

	2001-2 Forecast ($A)	2001-2 Actual ($A)	2002-3 Forecast ($A)
Total	***70,000***	***72,000***	***90,500***

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Appendix B

AUSTRALIAN GOLD COUNCIL/ERNST & YOUNG PROPOSAL TO AMEND THE INCOME TAX PROVISIONS TO ENCOURAGE EXPLORATION ACTIVITIES IN AUSTRALIA

1. Purpose

The purpose of this paper is to put forward an amendment to the Australian Income Tax Provisions to encourage exploration activities in Australia.

2. Background

The Australian Gold Council (Council) and the Association of Mining & Exploration Companies (AMEC) are concerned about the level of exploration activity in Australia. The Council and AMEC support initiatives to encourage investment in Australian exploration entities.

3. The Proposal

The purpose of the proposal is to provide financial incentives for investment in exploration companies. Under the new Uniform Capital Allowance provisions, exploration companies are entitled to an immediate deduction for exploration expenditure. However many explorers are not generating taxable income, and as such, are not in a position to immediately benefit from the tax benefit of the exploration deduction.

The proposal is to provide a flow-through of the exploration deduction to the entity that subscribes capital to the explorer. In effect, the explorer would forego an exploration deduction and transfer it to an investor. The rationale is that the after-tax cost of the equity investment is reduced thereby encouraging the investment community to increase their investment in exploration entities.

4. Other Examples of the Proposal

We understand a similar provision exists in the Canadian Income Tax Provisions.

A similar provision also existed in Australia and was operative from 1 July 1969 to 8 May 1973.[1] The previous provision provided a deduction for capital subscribed to companies for the purposes of exploration, prospecting or mining for petroleum and certain minerals. The company was required to lodge a declaration with the Australian Taxation Office (ATO) that the subscribed money would be expended on eligible exploration and mining activities. The company forfeited an entitlement to a deduction from the declared monies. In effect, the deduction was transferred to the investee

[1] Section 77D of the *Income Tax Assessment Act 1936*.

who is more likely to be in a position to immediately benefit from the tax deduction.

5. Safeguards to the Proposal

We recognise that any investment incentive must include safeguards to protect the revenue from any potential abuse whilst also demonstrating community value in the form of increased investment in exploration. In light of this, we propose the following issues be addressed:

5.1. Timing of Deduction

We suggest the investors be entitled to a deduction over a two-year period commencing in the year of capital subscription. Although it may be longer, two years is generally the period of an exploration program. This encourages explorers to undertake the activity on a timely basis and recognises the reflex of the deduction. That is, the investor is claiming the deduction in the same time period that the explorer would otherwise have made the claim.

It is critical that investors be entitled to a deduction on a timely basis to maintain the attractiveness of the mechanism. We would prefer a deduction entitlement upon capital subscription, however, we recognise The ATO desire for integrity measures.

5.2. Deduction Limited to Actual Exploration Expenditure

It is important that the exploration expenditure pursuant to the arrangement is not inflated. The deduction to the investor in the form of transferred expenditure must meet the definition of exploration as currently exists in the *Income Tax Assessment Act.*

5.3. Independent Review

We envisage that the provision would apply to listed exploration companies raising capital via a prospectus or other similar mechanism where there is an independent assessment of the integrity of the capital raising.

5.4. ATO Ruling

An exploration company may also be required to seek at ATO Product Ruling verifying that it meets the criteria for the provision. This would provide investors with a level of certainty when they are making their investment decision.

However, it is critical that the ruling be issued on a timely basis to maintain the integrity of the mechanism.

5.5. Arms-Length Safeguards

The provisions would require related parties to be operating at arms-length.

5.6. Restriction on investors

In order to prevent potential abuse of the provision, we suggest that limitations are placed on investors financing share purchases and there be restrictions with non-recourse funding arrangements with exploration participants.

5.7. Ongoing Review of the Proposal

We suggest the proposal be subject to an independent review after four years by Industry and Government to ensure the proposal is meeting the objective of encouraging exploration activity. As part of the review process, it may be appropriate to suggest a sunset mechanism to the extent that the proposal is not meeting its objectives.

However, it takes an average of seven years from discovery for the average gold mine to come into production and so a high level of patience and resolve is required before a worthwhile benefit for the Industry and the Nation's economy is realised.

6. Summary

In summary, we note there is precedence for the proposal to encourage exploration activity and we note the difficulty that explorers have in accessing some of the existing incentive mechanisms.

We believe that this proposal will encourage more venture capital investment in the Industry from both small and institutional investors. Without that risk capital and with the ongoing consolidation of the Industry, we fear the downturn in exploration will accelerate and we will see the demise of our Industry over the next few years in terms of fewer jobs and diminished export earnings for the Nation.