New South Wales

The Hon. Edward Obeid, OAM MLC
Minister for Mineral Resources
Minister for Fisheries

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

02 SEP 2002

Dear Sir/Madam

INQUIRY INTO IMPEDIMENTS TO INCREASING INVESTMENT IN MINERAL AND PETROLEUM EXPLORATION

Thank you for your invitation to make a submission to the Standing Committee's Inquiry.

The NSW Government encourages the responsible development of the State's mineral resources and therefore is keen to promote mineral investment and exploration throughout the State.

The mission of the Department of Mineral Resources is to ensure that the people of New South Wales benefit from the responsible assessment, development and management of their mineral resources. A key role is the provision of geoscientific information for mineral and petroleum exploration and development and the assessment and allocation of resources to advance sustainable development consistent with Government policies.

The attached submission addresses some of the points outlined in the terms of reference.

If you require any further information on this matter, please contact Mr Sam Maresh, Policy Adviser, in my office on 9228 3777.

Yours sincerely

Eddie Obeid
Minister for Mineral Resources
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Encl

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HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON INDUSTRY AND RESOURCES

INQUIRY INTO IMPEDIMENTS TO INCREASING INVESTMENT IN MINERAL AND PETROLEUM EXPLORATION

A SUBMISSION BY THE NSW DEPARTMENT OF MINERAL RESOURCES

The House of Representatives Standing Committee on Industry and Resources has invited submissions to its Inquiry into Impediments to Increasing Investment in Mineral and Petroleum Exploration.

The structure of the minerals industry in NSW

The minerals industry plays an important role in the NSW economy in terms of business activity, investment, regional development, job creation and export revenue.

The value of mineral production in NSW in 2000-01 was around $7 billion. Coal production, valued at about $5.0 billion in 2000-01 is the State's largest mineral sector, accounting for over 71 per cent of the total value of mineral production. Metallic and industrial mineral production is also very significant and was valued at $2.0 billion in 2000-01.

The NSW Government encourages the responsible development of the State's mineral resources and therefore is keen to promote mineral investment and exploration throughout the State. The NSW Government through its seven year, $30 million 'Exploration NSW' initiative is having substantial success in stimulating exploration activity.

The role of small companies in resource exploration in Australia

The global consolidation of the mining industry through mergers and acquisitions over the past few years has dramatically changed the landscape for the mineral exploration industry. This has been taking place at a time when the opportunity for new equity raisings by junior explorers has also been very limited, due to medium term falls in metal and other commodity prices.

Major companies currently have a reduced focus on exploration and commonly seek to add to their asset portfolio through acquisition rather than discovery. Other companies, to their credit, use junior exploration companies as their ore finders. In Australia, this means that we have reduced exploration effort from the majors, a very limited number of active middle level explorers, and a mostly cash-starved junior exploration sector.

Australia has also benefited in the past from the stronger home focus by Australian exploration and mining companies. Many of these companies are now either overseas owned or international in focus.

Impediments to Accessing Capital

A combination of low commodity prices, global currency and economic problems has commonly given investors a poor perception of mineral exploration in Australia as an investment.

As a result, exploration companies have encountered great difficulty in mobilising investment in mineral exploration programs.

The gold industry in particular has been hit hard. Gold exploration expenditure in Australia has more than halved over the past five years, driven mainly by investor disinterest in the sector which has severely reduced access to venture capital for gold explorers.

The flow of capital into 'new' technology sectors such as IT, biotechnology and telecommunications in recent years has also had a dramatic impact on gold exploration expenditure. Based on March quarter 2002 data, gold exploration expenditure has dropped 67% since its high of $225.9 million in June 1997.

The Minerals Council of Australia (MCA) has indicated that the improved outlook for gold on the back of recent price highs, while welcome, will not be enough to address what has been a prolonged and substantial drop in gold exploration. According to the MCA, whilst gold's recent rally has prompted a number of new and planned gold exploration floats, without more permanent taxation incentives to encourage long-term investor support of the gold industry's research and development arm, the future remains uncertain.

As lead times between exploration and mine development are generally between four and five years, a large and sustained jump in exploration expenditure is required now to address the ongoing fall in expenditure that has already led to ABARE forecasts of declining gold production over the next five years. The MCA has stated that it is pursuing implementation of gold exploration investment incentives with the Federal Government as a matter of urgency.

Under the current Uniform Capital Allowance provisions in Australia, exploration companies are entitled to an immediate deduction for exploration expenditure. However, according to the Australian Gold Council (AGC) many explorers are not generating taxable income, and therefore are not in a position to immediately benefit from the tax benefit of the exploration deduction.

The AGC has raised with both Federal and State Ministers the need for the implementation of a 'Flow Through Share Scheme' to attract venture capital into the mineral exploration sector in order to arrest the decline in Australian mineral exploration expenditure.

A 'Flow Through Share Scheme' currently exists in Canada. The proposed scheme allows for 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.

Public provision of geoscientific data

The mining industry is Australia's leading export earner, deriving nearly $60 billion in 2000-2001. For Australia to continue to benefit from its mineral wealth it is essential that exploration investment be maintained at a high level to ensure the discovery of new resources.

The States and Territories, by virtue of their onshore powers over mineral resources, have the principal role in the acquisition of geoscientific information in support of mineral and petroleum exploration. This work is usually conducted through government geological surveys.

Since the mid 1990s, there has been a new global paradigm operating in regards to resources exploration. This paradigm is characterised by nations and states engaged in serious competition for exploration investment. High quality geoscientific data and knowledge offer competitive advantage to jurisdictions in this global market. Over this time most States and Territories had or continue to have government-funded exploration initiatives. Some of the most obvious products from these initiatives are the extensive high resolution airborne geophysical surveys conducted across much of Australia in the past decade. Some 60% of NSW's land area has been covered by such surveys, flown under the Government's Discovery 2000 and Exploration NSW initiatives.

The Australian Geological Survey Organisation (AGSO) (now Geoscience Australia) supported State and Territory programs across Australia through its capacity to apply technologies beyond the scope of individual jurisdictions.

The Broken Hill Exploration Initiative (BHEI) is a case in point. This National Geoscience Mapping Accord (NGMA) project involving NSW, South Australia and the Commonwealth extended from 1994 until 2000. The BHEI proved to be an outstanding success in creating renewed exploration interest in the Broken Hill region and adjacent areas in South Australia.

Notwithstanding the States' constitutional responsibility in relation to onshore mineral resources, a healthy mineral industry is of major national benefit and accordingly of national responsibility. The NSW Government through its exploration initiatives recognises its responsibility in this regard. AGSO's seismic, geochronological, and airborne geophysical technologies added substantially to joint state-commonwealth minerals programs under the then NGMA. The Commonwealth has not always accorded a similar priority to these important programs.

In 1999, AGSO substantially reduced its commitment in support of the Australian mining industry. Its minerals-related programs were substantially

wound back or terminated. Reduced funding and a lack of substantial priority being afforded to national minerals programs brought about these changes.

Although Geoscience Australia (GA) continues to undertake collaborative scientific work with state geological surveys there is a substantially reduced capacity on its part to contribute to issues relevant to mineral exploration.

The next generation of ore discoveries in Australia will be made through remote exploration techniques. These deposits will have no surface expression and may lie 1000 m or more below the surface. The science and technologies required for such discoveries are at the cutting edge. Geoscientific understanding of the sub-surface will be fundamental. Geoscience Australia will need to play a major role in developing this understanding.

NSW believes Geoscience Australia also has an important role in brokering the broad application of new geoscience technologies that may be beyond the capacity of individual States and Territories. Such new technologies include the BHP-Billiton Falcon airborne gravity gradiometry and modern airborne electromagnetic systems.

NSW values the continued contribution by Geoscience Australia to national geoscience priorities. GA has also been particularly successful in coordinating a national approach to the promotion of international mineral exploration investment.

NSW submits that the reduced support for minerals programs in Geoscience Australia is a significant impediment to mineral exploration in Australia. A renewed emphasis by the Commonwealth Government is needed on such programs.
