

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY,
SCIENCE AND RESOURCES

05 DEC 2002

RECEIVED

House of Representatives Standing Committee
on Industry and Resources

Submission No: 99

Date Received: 5 DECEMBER 2002

Secretary: B. Fisher



Submission to the House of Representatives
Standing Committee on Industry and Resources
inquiry into
Resources Exploration Impediments

1. Introduction

Heathgate Resources Pty Ltd (Heathgate) welcomes the opportunity to participate in the inquiry into Resources Exploration Impediments being conducted by the House of Representatives Standing Committee on Industry and Resources (the Committee).

Heathgate is an Australian affiliate of General Atomics (GA), which was formed in the USA in 1955 to explore peaceful uses of the atom. GA is dedicated to the premise that change can be beneficial. A miner and processor of uranium and designer of nuclear power reactors, GA has developed and implemented technology to eliminate hazardous waste and safely destroy nuclear weapons. It is developing leading edge power supply techniques through a new generation of nuclear power reactors that have the ability to destroy nuclear warheads by consuming them as fuel for the generation of electricity.

Heathgate owns and operates the Beverley uranium mine in the Australian outback about 600 km north of Adelaide, South Australia. A localised resource of about 21,000 tonnes of uranium oxide, it is contained in an isolated aquifer between 100 and 140 metres underground. First discovered in the late 1960s, it took more than 30 years before technology, the international uranium market and the Australian political environment reached the point where Beverley could be developed. Heathgate Resources acquired the project as an undeveloped mine in 1990, at a time when national government policy prevented new Australian uranium mines from proceeding. Over the next decade – as government policy changed – the company brought the project into commercial production to become an important South Australian employer and export earner.

Beverley is a pioneering mine. It is the first uranium mine in Australia to use the environmentally-friendly In Situ Leach mining technology, where the chemical process of extracting minerals from the host rock – which is carried out above ground in conventional mines – is carried out underground, or *in situ*. The dissolved uranium is then pumped to the surface, where it is taken out of solution and packaged for export. Producing about 1000 tonnes of uranium annually over a mine life of more than 15 years, Beverley is acknowledged as the international benchmark for ISL uranium mining.

The Committee will come to its own conclusions on Australia's resource endowment and the rates at which it is being drawn down (Term of Reference 1). However, Heathgate's own view – and one that is mirrored internationally by the resource development industry – is that while Australia:

- possesses an enormous mineral, oil and gas resource base;
- has, or has access to the capital, expertise and will to develop those resources for the benefit of Australians and the world; and
- has an essentially stable political climate

political constraints are impeding this development in many areas.

These constraints are reflected in the two issues Heathgate believes to be the biggest impediments to Australian mineral and petroleum exploration and development. The first is the issue of Native Title, while (and not reflecting on this particular inquiry) the second – in Heathgate's view – is the intense, continuing and very public scrutiny of the industry by government that often goes beyond the regulatory process.

2. The Politics

History has shown that over the latter part of the 20th century, successive Australian governments (Federal and State) have been forced to contend with hostile upper houses or reliance on the support of sometimes single-issue political candidates who have been elected to public office and – either alone or with other so-called independents – subsequently hold the balance of power.

This has led to a situation in which well-considered policies that are in the better long-term interests of the nation often have been thwarted by minority interests.

While Heathgate does not support a “develop at any cost” approach, we believe the nature of Australian politics has led to an environment in which vocal minority groups are given unbalanced favour to the detriment of national resource development. Their claims are given credence by a sensationalising media that often ignores or misrepresents fact put forth as “information” that is difficult to respond to concisely on those rare occasions when a forum is provided.

The single-minded approach of the anti-nuclear lobby on issues such as the replacement of the Lucas Heights research reactor; the repository for the safe and proper storage of national low-level radioactive waste; and uranium mining in Australia are three prime examples of minority rhetoric that impinges on public interest and understanding of the issues.

2.1 The low-level radioactive waste repository

Minority interests have thwarted a legitimate process that began in 1985, involved a bi-partisan Commonwealth/State consultative committee and concluded 12 years later that:

- there was a need for such a facility; and
- the best location in the country for it was in remote South Australia.

The issue has been the subject of much distortion and emotional debate, ultimately becoming a key element in the 2002 South Australian election, in which the incumbent Government was defeated by the narrowest of margins. The consequence of this election result is that the new Government, which adopted a populist stance on radioactive waste is now conceding the need for a low-level repository, but one that will take only South Australian waste. The bi-partisan approach that began in 1985 was abandoned in a bid to appease a small number of vocal and often militant anti-nuclear activists.

2.2 Lucas Heights

A small, hard core of anti-nuclear activists in the Lucas Heights area – believed to number less than 100 – has waged a similar campaign with regard to the replacement of the Lucas Heights research reactor. They produce no evidence other than hearsay to support their claims that most Australians share their concerns about the replacement program. Indeed Heathgate understands the level of support for the replacement program in the Lucas Heights area does not reflect the opposition claimed by the anti-nuclear lobby. Indeed, the local Federal Member has been returned with an increased majority, which would indicate that the electorate as a whole does not embrace this the anti-nuclear sentiment.

2.3 Uranium mining in Australia

Market research conducted in Australia over recent years by Heathgate and others has shown uranium mining is not opposed by the majority of Australians, as claimed by the anti-nuclear lobby. Indeed, the Beverley uranium mine in remote South Australia enjoys a good level of support from the community of the north.

Research conducted by Heathgate in 1999 showed 52 percent of South Australians supported Beverley, with 36.5 percent opposed and 11.5 percent undecided. In the north of the State the level of support was much higher, at 70.5 percent.

This is consistent with other market research conducted in South Australia in 1997 that showed more than 60 percent of South Australians supported the expansion of the Olympic Dam copper-uranium mine.

By contrast, the anti-nuclear movement justifies its claims of opposition by citing the results of an informal poll conducted in the late 1990s in which it which asked whether Australians supported uranium mining in the Kakadu National Park. Not surprisingly, this survey, conducted in the heat of a major anti-nuclear campaign in the Northern Territory produced a result indicating overwhelming opposition. However, it should be remembered that this was a poll that was conducted during a major protest and referred specifically to mining in a National Park.

Against the background of reported opposition in these three areas, Australian Governments – Commonwealth and State – have historically demonstrated a reluctance to embrace the controversial in favor of a non-confrontational approach. This approach is also reflected in a range of issues that goes well beyond Australian mineral and petroleum exploration.

It is reflected in the Senate Environment, Communications, Information Technology and the Arts References Committee's current inquiry into Environmental Regulation of Uranium Mining in Australia. Australia's various uranium mines have all undergone stringent examination through the Environmental Impact Statement process and operate under the strictest reporting regime of any producing country. Yet despite this, an inquiry has been established for no apparent purpose other than to appease a vocal minority of nuclear industry opponents whose emotional focus on nuclear weapons causes them to overlook the benefits of nuclear energy. Nuclear power generation currently represents the only way to provide bulk load electricity for major economies without adding to greenhouse emissions.

3. Native Title

The issue of Native Title continues to be a significant stumbling block for the Australian resource industry. In particular, the lengthy delays that occur between lodging a Native Title claim and resolving the relevant issues represents a major complication for the industry.

In the case of the Beverley mine, through the 1990s four Aboriginal groups lodged Native Title claims over the area covering and surrounding the mine lease between the northern Flinders Ranges and Lake Frome. Three made claims on behalf of a small number of named claimants (between two and six) on behalf of "all Adnyamathanha people" while the fourth claim was lodged by a small number of claimants purporting to represent the Kuyani people.

Heathgate entered into mining agreements with each group, agreeing to ultimately pay a 2 percent royalty on production to the successful claimant. While the issue was being determined by the Courts, Heathgate undertook to pay each group 0.5 percent (1/4 of the agreed 2 percent royalty). Once Native Title was decided, the successful claimant would receive the entire royalty and the 0.5 percent interim payments would cease.

Subsequently, the three Adnyamathanha claimant groups have become involved in a dispute with an organisation called the Adnyamathanha Traditional Lands Association (ATLA), which also claims to represent the Adnyamathanha people. ATLA has demanded that Heathgate make all future royalty payments to it and has threatened to sue Heathgate if it makes any royalty payments to the Adnyamathanha claimants. The matter has been tied up in the courts since early February, with no sign of resolution. In the meantime, at least two meetings called by the various Aboriginal interests in a bid to resolve the issue have broken up amid acrimony.

While Heathgate enjoys good relationships with the various groups involved, simple issues such as archeological and heritage site clearance for drilling programs and the like become unnecessarily complicated, time consuming and costly, with the legal fraternity being the principal beneficiaries. Indeed, the legal costs incurred by the various groups in pressing their respective cases are absorbing funds that otherwise would reach the Aboriginal community at large – as was intended by the Heathgate mining agreements.

4. The terms of reference

4.1 Assessment of Australia's resource endowment and the rates at which it is being drawn down

This submission relates principally to Australia's very significant reserves of uranium. However, Heathgate believes many of the observations it has made after operating in Australia for the past seven years may also apply to other industries.

In responding to the first term of reference, Heathgate draws on the findings of the International Atomic Energy Agency and the Nuclear Energy Agency within the Organisation for Economic Cooperation and Development. These two bodies recently published their bi-annual joint report on the international uranium industry: "Uranium 2001: Resources Production and Demand". Known as the Red Book, this 19th edition of the global uranium review found that Australia has 36.4 percent of the world's known uranium reserves that may be developed at costs below \$US15.40 per pound. This places Australia well ahead of the current major supplier – Canada – which holds 16.5 percent of reserves in the same category. It is double the reserves of the third largest potential supplier – Kazakhstan (18.7 percent).

By any estimation, Australia should be a significant supplier of uranium to world markets. Yet the Red Book states: "... due to past and even future potential political constraints in Australia, the uranium endowment of that country is not likely to come anywhere near being realised." It goes on to say: "A more "uranium-friendly" government has been in power since March 1996 but only one new uranium production centre, the Beverley Mine, has entered commercial operation. The proposed Honeymoon project has received its necessary permits and licences, but continues to pursue elusive development funding."

The significance of this independent assessment of the Australian uranium mining industry should not be understated. It points to Australia's potential to become the biggest producer of uranium in the world – with the billions of investment dollars this would bring and the billions of dollars in continuing employment, infrastructure and royalty payments to State governments. Yet it says this is unlikely to be realised. It further highlights the difficulties associated with approaching the international market to raise funds for a uranium project in Australia.

What it does not say is that the Australian experience will simply entrench Canada as the world's biggest supplier of a product that represents the only way to produce bulk load power without greenhouse implications. Nor does it highlight the position of influence Australia could assume in deciding future international nuclear safeguards policy should it establish itself as the principal supplier. The anti-nuclear lobby would argue that there is nothing to be gained by Australia becoming *the* major supplier ... that Australia would be better off without a uranium mining industry. This approach ignores the fact that billions of dollars have already been invested in the industry in this nation with the approval of the community through its support of political parties who do not oppose the mining and processing of uranium.

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

Throughout its exploration history, Australia has possessed a workable mix of small exploration companies and significant investor/developers. This is best reflected by the role BHP played in the Australian mining industry for generations from its birth as a base metal producer in Broken Hill to its role in the 1970s and 1980s as the Australian stock market leader. It is further reflected in the histories of any number of Australian mining ventures that have been developed successfully over the past 200 years.

In many instances these significant corporations have acquired their various mining interests from small companies and individuals who have played pivotal roles in seeking and finding what have subsequently become major resource projects.

Historically, this has been done with limited Government assistance or encouragement. In South Australia the work of the former SA Department of Mines (now PIRSA), which conducted a major exploration initiative through a State-wide aerial survey, represents a welcome initiative in which Government aided and encouraged the industry. Unfortunately, it seems more politically acceptable to obstruct resource development to placate a vocal minority.

Heathgate believes Governments – State and Federal – should encourage responsible exploration and sustainable development. We wonder why the desecration of the Australian outback by opal miners, or the degradation of the landscape and water tables by vast open cut coal mines, for example, are not considered to have environmental impact.

At the same time, it is a fact that while the Australian resource industry continues to expand, its participation rate is contracting following a series of mergers and consolidations over recent years. Heathgate views this trend as being contrary to the longer-term national interest. As desirable as it is to have large corporations with significant capital bases to undertake major projects that require billion-dollar investment, there also is a need for a large number of small companies with limited capital, but with the risk approach and desire to succeed. Unfortunately, Australia's recent history has seen the number of large corporations diminish to the point where the industry is dominated by a handful of corporations. The inevitable extension of this development will be a continuing reduction in the number of small explorers willing to take the risk, try the untested theory or go beyond traditional thinking. That approach would have left Olympic Dam's great wealth untapped.

The role for government in this area should be to encourage the small explorer and to prevent the contraction of the industry into the hands of a monopolistic few that might not have the nerve for the challenge that resource exploration represents.

4.3 Impediments to accessing capital, particularly by small companies

Investment in the resource development industry is not for the risk-averse. Very few exploration companies realise the objective of seeing a project through from exploration to development. Along the way they require funding – whether it be from individuals or other corporations and whether it be by way of equity investment or loan funding.

Regardless, they require a stable environment in which investors and lenders can see that if they are successful, their continued development will not be impeded. This requires a regulatory regime that is responsible as well as flexible. It also requires a system in which those who have been given the bureaucratic responsibility for overseeing the industry are not affected by concerns about marginal seats and swinging voters. Just as the resource industry requires nerve to take on the difficult and risk all on an unproven theory, the nation need governments with the will to make decisions that may not see their realization during a single term of office. Taking a resources project from conception to fulfillment is no short-term challenge. Neither is public administration.

Heathgate believes the Commonwealth could assist this process by introducing an exploration investment tax credit scheme similar to that implemented in Canada during 2000 to stimulate investor interest in mineral exploration. This temporary measure – for “flow through” shares – provides a tax credit of 15 percent to investors in grass roots mineral exploration ventures and has provided a substantial impetus to shares in exploration Canadian companies, enhancing their ability to raise exploration funds in capital markets.

4.4 Access to land including Native Title and Cultural heritage issues

Based on its own experiences, Heathgate has found access to land for exploration and development to be an issue of concern because of question marks surrounding Native Title issues. Heathgate enjoys good relationships with all Aboriginal groups who have expressed an interest in the areas over which the company has mining and exploration tenements. However, that does not mean that the process of gaining approval for exploration and development is a simple one. It is our experience that it is time-consuming and costly – in terms of meeting the expectations and expenses of Aboriginal groups and in meeting the cost of their legal representation. Heathgate believes this aspect of the resource industry should be reviewed in the light of experiences in Australia over the past two decades. It seems incongruous that while pastoralists should have no claim over the mineral or petroleum resources on their land, Aboriginal Australians have quite different expectations that resource development corporations are encouraged to accommodate.

Like all responsible resource companies, Heathgate is conscious of its obligations to pastoralists, Aborigines and the community at large. However, the many unresolved aspects of Native Title mean that this issue can be (and often is) a difficult one – for the industry and for Aborigines alike. Nevertheless, Heathgate’s experience has been that ultimately an accommodation is reached. Our own operating philosophy is such that we take great care to protect the environment, which is recognised and appreciated by the Aboriginal groups with whom we deal. Access to land under Native Title claim is generally provided in due course, with archeological and heritage site clearance following. However, that is not to say the process could not be improved by providing better guidelines for the industry and for Aboriginal groups. Exploration is a high risk and costly process. Additional elements of risk and cost are disincentives that could be eliminated if clearer guidelines existed for all parties.

4.5 Environmental and other approval processes

Heathgate believes the existing process for environmental approvals is satisfactory, albeit lengthy. It provides ample opportunity for significant public input and close public and government examination of all aspects. Heathgate has found the Federal and State agencies responsible for overseeing these issues to be well qualified.

4.6 Public provision of geoscientific data

Recent exploration in South Australia has already seen the discovery of a highly promising mineral province in the Prominent Hill region, north west of Olympic Dam. It has further focused the attention of a number of mining companies in the Gawler Craton. The credit for this rests with the South Australian Government, which conducted a major airborne survey over the entire State and then made the information available to the industry. This was an initiative to be applauded and one that could not have been undertaken by the industry. The cost to the State may have been significant, but the repayment will come with interest if Prominent Hill lives up to the expectations.

It is accepted that the discovery of Olympic Dam required innovative thinking and a courageous decision to drill in an area that demonstrated little evidence of mineral potential. The SA Exploration Initiative married new exploration technology with Government funding and encouragement to create a potential new mining province for the State. Similar initiatives should be encouraged by State and Federal government agencies.

4.7 Relationships with indigenous communities

Heathgate's experience in working with indigenous communities has shown that the expectations of individuals often are unrealistic and not realised. Further, administration of funds directed to Aboriginal groups often is an issue of concern. Even though it has made significant payments to Native title claimants, Aboriginal groups constantly approach Heathgate by members of local asking where the funds have gone. This very issue is being asked by one Aboriginal group of another in a case currently before the Federal Court. This group, which is receiving free legal advice from the Aboriginal Legal Rights Movement, has brought a series of legal actions against registered Native Title Claimants as part of an attempt to replace them as representatives of the local community and is challenging their right of to draw on Heathgate royalty payments to fight the case.

In the meantime, members of the local community continue to question why they see no evidence of the payments that have been made. Against this background, Heathgate strives to ensure that payments are used for community purposes and in areas where tangible community benefits accrue from association with the mining industry. It is to be hoped that administrative and legal costs in managing the funds can be minimised. Government assistance and encouragement in this area would be invaluable, particularly if increasing numbers of Aboriginal communities are to share in the wealth generated by development of Australia's resources. Heathgate is also committed to providing employment for local Aborigines at the Beverley Mine and strives to achieve an indigenous site employment level of 20 percent.

4.8 Contributions to regional development

It is Heathgate's view that resource development companies establishing operations in Australia should be encouraged to participate in the advancement of nearby communities. That is not to say that they should shower largesse and be seen as a benevolent neighbor, but rather as a member of the community with a contribution to make.

This contribution may be realised in many ways – from employment to assistance in provision of services or grants. However, this is not to diminish the role of Local Government or State, Territory and Federal governments.

Heathgate believes the industry sees itself as responsible in these terms and questions whether this inquiry has any role to play in this area.

Heathgate also believes that the various tiers of government also have roles to play and should be willing (as they have been in the past) to contribute in a range of areas to encourage significant resource development investment. Logically, this may include provision of infrastructure or taxation and other incentives to encourage development that otherwise may not eventuate.

5. In summary

Heathgate believes the two biggest impediments to increasing investment in mineral and petroleum exploration in Australia are questions surrounding Native Title and the politicising of projects for short-term gain – by individuals and politicians alike.

Because of politics, Heathgate is not confident that the Native Title issue will be resolved in the short term. That will be disappointing for the Aboriginal community as well as for the resource development industry and a host of other contributors to the Australian economy, including the pastoral and agricultural industries.

Heathgate expresses the hope that this inquiry will deliver tangible results for the community at large as well as for the industry. We recognise that government has a right and a responsibility to oversee the mining industry – uranium or otherwise. Government represents the community at large and would be negligent in carrying out its duty if it did not ensure that the industry follows the procedures and protocols under which it is permitted to operate.

However, Heathgate believes it would be similarly negligent in its role if it allowed short-term political interests to overshadow long-term and wider considerations.